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The Small Business Adviser

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Small Business Outlook '97

Published by
U.S. Chamber of Commerce
JANUARY 1997 - $2.50

The economic forecast signals opportunities—and reasons for caution—for small companies.

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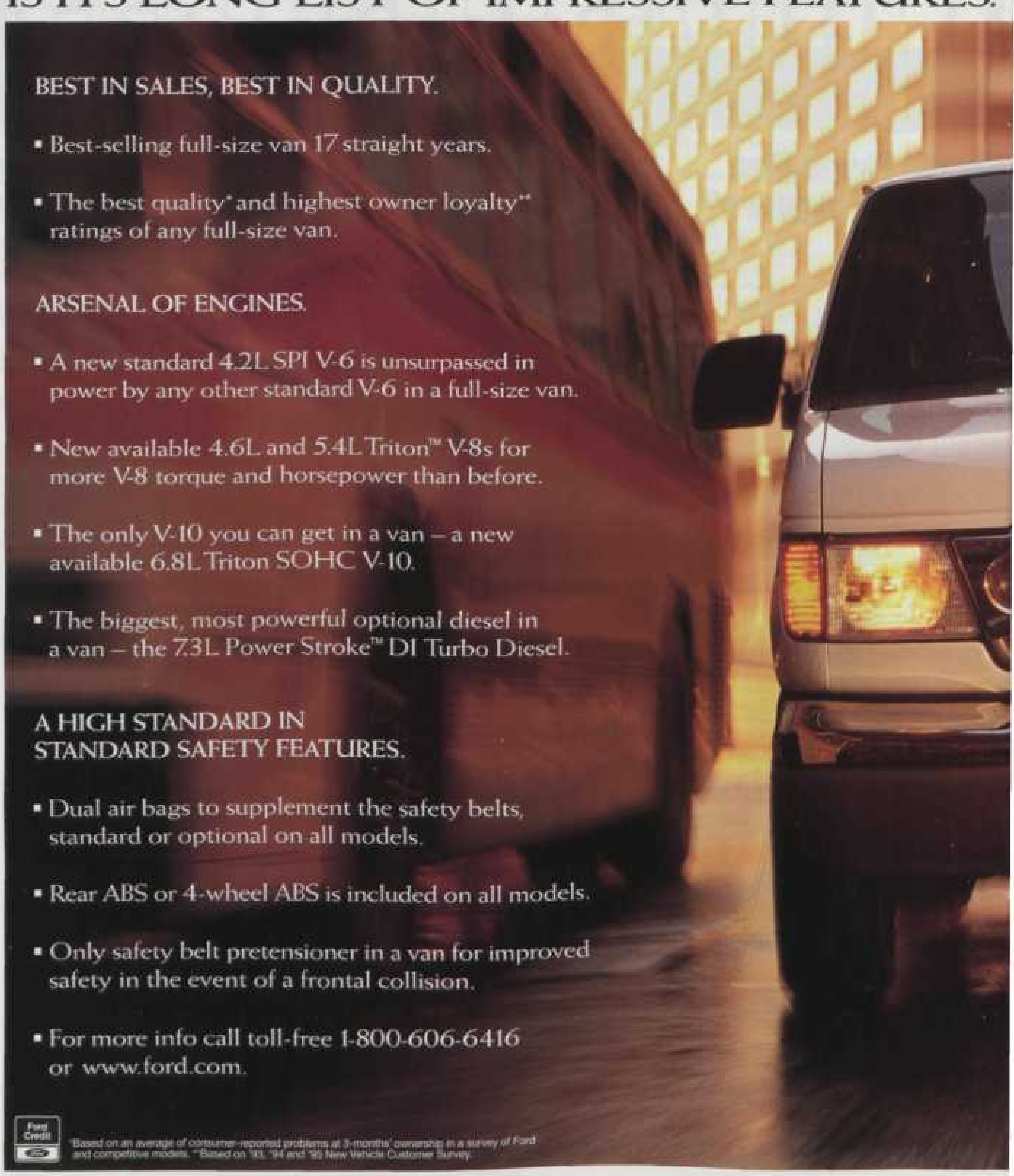
IS ITS LONG LIST OF IMPRESSIVE FEATURES.



...ITS LONG 17-YEAR REIGN,

THE NEW 1997 FORD ECONOLINE.

THE BEST-BUILT,* BEST-SELLING FULL-SIZE VAN.

BUILT Ford TOUGH

Nation'sBusiness

Published by
U.S. Chamber of Commerce
Washington, D.C.

Small Business Outlook '97

Optimism and caution: *Modest economic growth and moderate inflation mark the forecast, along with warnings that qualified workers may be hard to find in some regions and that firms should not take on too much debt. Cover Story, Page 16.*

PHOTO: ©ROBERT BURROUGHS

Tree makers *Dennis Gabrick, right, and Vito Milano target ancillary markets. Managing Your Small Business, Page 9.*

VOL. 85, NO. 1

Editor's Note

PHOTO: ©MICHAEL A. SCHWARZ

Costumed-characters *provider Cheryl Carter found a better way to expand her firm, Party Animals. Franchising, Page 49.*

DEPARTMENTS

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The Year Ahead

PHOTO: T. MICHAEL KEZA

One of our chief commitments at *Nation's Business* is to give our readers insight into what the future may hold. We do that in a number of articles in this issue.

In "Clear Sailing?"—our cover story on the small-business outlook for 1997, beginning on Page 16—Senior Editor Jim Worsham, right, gives managers information to chew on as they update their business plans and consider their options for the year ahead.

"Look For A More Pragmatic Congress," by Senior Editor Dave Warner, describes the postelection political alignments on Capitol Hill and what they're likely to mean for business in 1997. That article begins on Page 25.

Business owners considering expansion won't want to miss our special franchising guide, written by Associate Editor Roberta Maynard. Beginning on Page 49, it highlights the characteristics of businesses that have used this means to expand successfully. In a related story on Pages 54 and 55, several executives comment on trends in franchising.

PHOTO: ©RICHARD HOWARD

This month we also kick off a new feature called "Finding Capital." In each issue during 1997, we'll look at a different method of getting money to expand or simply run a business. This month's article, starting on Page 22, was written by Editor-At-Large Sharon Nelton, who initiated the series; it relates how companies such as Bagel Works, in Keene, N.H., can be socially responsible and still attract financing. Banker David Berge—center in the photo, with Bagel Works' Jennifer Pearl and Richard French—explains the lender's perspective.

From the entire staff at *Nation's Business*, best wishes for a happy new year!

Mary Y. McElveen
Editor

Letters

The Generation X Files

[Editor's Note: At the end of our November story headlined "A Less-Stressed Work Force," we asked readers to fax us their insights on managing Generation X employees—those born after 1964. Here are some of the thoughts that readers expressed.]

I employ about 40 people who range in age literally from 18 to 80. In my opinion, there simply is no need to categorize people as baby boomers, Generation Xers, and the like. The fact is, *all* people respond to a management style that makes them feel they are important and a part of the process, so to speak.

The premise that guides me in my people management is quite simple: If my employees, no matter how young or old, get up in the morning really looking forward to going to work, everything else that we are trying to accomplish will fall into place.

People naturally perform well when they like what they are doing.
Stewart Weis
President
CRS Hardware Corp.
Missoula, Mont.

"Generation Xers seem to treat their jobs as jobs, plain and simple."
—Dawn M. Miles

The article does not—at least in my experience—accurately portray the Generation Xer in the workplace.

Take, for instance, the observation that people who are in their 20s today aren't as driven as baby boomers. This is simply not true.

Almost all Generation Xers, even graduates who have professional degrees, have great difficulty finding their first job in their chosen profession. After four years of college, they think that no one wants to hire them.

They are frustrated and unhappy with many of the changing realities of the workplace. The downsizing craze terrifies them, as it should. They are convinced that their lives will not be as good as their parents'.

Therefore, Xers are reluctant to invest emotional energy in the fragile and uncertain workplace of the 1990s. The energy that boomers invested in their careers, the Xers spend elsewhere—on travel, cooking, or biking, for instance.

Xers are just as driven. But they expend their energy where they believe they will get some reward. And that place is not the workplace.
Mark D. Olson, Partner
Gessler, Hughes & Socol, Ltd.
Chicago

Being a Generation Xer myself, I wanted to respond to your story because it really hit home—by which I mean it highlighted aspects that characterize the type of worker I am.

This made me appreciate the kind of worker and individual I am and will continue to be. Fun, recognition, cross-training, and flexible scheduling are all ingredients that provide for a "good sauce," for lack of a better analogy. Generation Xers bring energy and enthusiasm to all that they do, whether it be inside or outside the office.

By the way, I am a Gen X manager, and I feel it is crucial to the formula for success that we instill that same energy and enthusiasm into those who work *with* us, not *for* us. Hierarchy is needed to a certain degree, but the less of it the better.
John W. Lessard III
Program Development Director
North Central Massachusetts Chamber of Commerce
Leominster, Mass.

Generation Xers are educated and intelligent and want to be productive. But we also have control of our lives.

Generation Xers do not respond well to pressure or threats. We are informal and do not allow ourselves to get overly stressed. Make us feel a part of something and involved as equals, and you will see results.
Brandon Goodman, Manager
Central Carolina Gas Co.
Hamlet, N.C.

Generation Xers seem to treat their jobs as jobs, plain and simple. They are not looking for the big titles or the big dollars, or at least these are not their top priorities. They simply want to enjoy their work.

Gen Xers cannot be trained in a skill they don't enjoy. So managers need to focus on helping Gen Xers realize and develop

their potential. Find out what the Gen Xer is good at and enjoys doing, then supply the resources to develop that skill, and you will create a team player who is devoted and will help you reach a common goal.
Dawn M. Miles
Canandaigua, N.Y.

Generation Xers are making it clear that a job is only part of their lives. That's healthy. However, I see this trait as the only big difference between Generation Xers and the baby boomers.

The theories that support teamwork and individual development as desirable in the workplace were developed nearly 30 years ago. I don't see Generation X as the force that is driving the momentum toward these behaviors; rather, it is the workplace itself.
Bill McIntyre
Reedsburg, Wis.

Not All Trade Shows Are Created Equal

Your November cover story, "Cashing In On Trade Shows," attracted my attention because our company attends various hospital association shows, and our sales from show leads are very low. Our company provides televisions and associated equipment and systems to hospitals—a narrow window within a narrow marketplace.

We have exhibited at these trade shows for 20 years, and the past 10 years have been bad for my company and many other companies. There are only a handful of longtime exhibitors. Most exhibit for one or two years and then quit because sales resulting from the shows are poor.

I agree with your concept that trade shows are excellent for marketing a company's products and services. And after reviewing your article, it dawned on me why we are not as successful as some of the companies mentioned in the story.

We are not attending a real trade show, one where people come specifically to buy goods and services and that runs eight hours a day for three days. We are attending an association show that lasts four days, with exhibits open for a total of six to eight hours.

The people do not come for the trade show; they come to attend various association meetings. The vast majority of the people walk through the exhibits only as a courtesy, eyes straight forward. Heaven forbid that they even look in a booth—someone might try to sell them something.

You might want to include a side note in future articles cautioning your readers about association trade shows that use income from the exhibit booths to subsidize the meetings. The real focus is not on the trade show but on the meetings.
George Lausche, President
Master Video Systems, Inc.
Dallas

An Edge With Graphics

The importance of graphics deserved more attention in "Cashing In On Trade Shows."

It takes an attendee 4.8 seconds to pass a 10-foot-long booth. Moreover, the most frequently asked question by attendees is, "What does that company do?"

Thus, the best way to get attendees into your booth is to use "people-magnet" graphics that grab the audience's attention and communicate what you do.
Jerry Cahn, CEO
Brilliant Image
New York City

Sorry, Wrong Number

The September cover story, "Capital Ideas For Financing," gave The Money Store's phone number for home mortgages, not business loans. The correct number is 1-800-722-3066.

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Please include your telephone number and your postal address. Because of space limitations, we cannot print all letters received, and those selected for publication may be condensed.

ENTREPRENEUR'S NOTEBOOK

Uncle Sam May Want You

By Mary Barnes

I like to emphasize to people that "my" company is a family business. My husband, son, daughter-in-law, and sister—all of whom work in the firm—have as much to do with Vita-Erb's success as I do—and so does our Uncle Sam. In fact, if it weren't for Uncle Sam, we wouldn't have $1 million in annual sales and probably wouldn't even be in business.

Our Uncle Sam is everyone else's Uncle Sam: the federal government, which since 1985 has been virtually the only buyer of our skin-care and janitorial products. It uses them in facilities such as government buildings, military bases, and veterans hospitals.

We have manufactured herbal-based bar and liquid soaps, hand cleaners, shampoos, and moisturizing lotions since 1978. But Vita-Erb's first break came in 1981, when our products were accepted for use by the Cleveland Clinic, an internationally known, privately run medical and research center. Even then, with annual sales of just $5,000 and little seed capital, developing a retail market or even eye-catching packaging didn't seem possible.

So, looking for a way to grow the business without retail sales, I attended a Small Business Administration seminar on doing business with the government.

After applying for and receiving approved-vendor status with agencies such as the Department of Defense, the General Services Administration (GSA), and the Department of Veterans Affairs, we began responding to solicitation requests.

The first government contract we won, in 1985, was to provide janitorial supplies to the Tennessee Valley Authority. That immediately took our annual sales from $5,000 to $25,000. Since then, we have won contracts as big as $900,000 for a two-year pact, and we have developed a following among private consumers who have been impressed with our products when they used them at government facilities. We're starting to use that following to build a retail market.

Vita-Erb has shown that it's possible to team with Uncle Sam to build your emerging business. Here's what you need to do:

PHOTO: [illegible]—BLACK STAR

Government contracting *is fertile territory for Mary Barnes, foreground, and family members at Vita-Erb.*

Read the fine print. Don't think government purchasing agencies care more about quantity than quality. Like the buying public, the government expects reliability, performance, and consistent quality from the products it purchases.

Unlike retail customers, however, government agencies spell out their expectations with detailed specifications that cover everything about the item and its packaging. So manufacturers know upfront what's expected.

Do your homework. Everything about government purchasing is public information, so before putting any solicitation together we go directly to the GSA, for example, and find out how much of a particular product was purchased the previous year, at what price, and from whom. Those details help us make marketing decisions.

Don't bid yourself out of a profit. Trying to be the lowest bidder isn't the way to go. A sale without profit is worse than no sale at all.

Make performance count. Government contractors are graded on their performance. Inconsistent quality, late delivery, and packaging that doesn't follow the outlined specifications all result in lower grades.

Don't think special status will always win the contract. Minority or female ownership doesn't necessarily win contracts; solid business practices and smart marketing do.

Check the Internet. Finding out what's being put out for bid has never been easier. Federal and state World Wide Web sites offer outstanding opportunities for finding out who is looking for what and when.

Consider your peers. When people say, "Isn't the government a pain to do business with?" I reply: "Look who Boeing is doing business with." Not bad company, when you think about it. NB

Mary Barnes is president of Vita-Erb, Ltd., in Springfield, Mo. She prepared this account with Contributing Editor Susan Biddle Jaffe. Readers with insights on starting or running a business are invited to contribute to this column. Write to: Entrepreneur's Notebook, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

WHAT I LEARNED

Doing business with the government can help a company blossom, but you have to know and follow the ground rules.

Dateline: Washington

Business news in brief from the nation's capital.

CAPITAL

Women Entrepreneurs Make Credit Gains

After many years of fighting for access to credit, women business owners are making some headway.

According to a new study by the Washington-based National Foundation for Women Business Owners (NFWBO), women entrepreneurs today are almost as likely to have bank loans or credit lines as their male counterparts—46 percent of women compared with 49 percent of men.

The study also found that women's sources of capital changed significantly between 1992 and 1996. Seventy-two percent of women business owners are using business earnings to finance their firms, nearly double the percentage of four years ago.

Conversely, the percentage of women entrepreneurs using credit cards as a source of capital was cut by more than half in the same period, from 52 percent to 23 percent, a level similar to that of men entrepreneurs, the study shows.

Sources Of Financing For Women Entrepreneurs

Women business owners have come to rely more on business earnings and less on credit cards and other sources to finance their businesses, according to the National Foundation for Women Business Owners. Here are the changes in the percentages of women entrepreneurs who used specific sources of financing in 1992 and in 1996.

	1992	1996
Business earnings	38%	72%
Credit cards	52	23
Business loans	26	20
Private sources	33	21
Vendor credit	38	10
Personal bank loans	18	5

SOURCE: "CAPITAL, CREDIT AND FINANCING" STUDY, NATIONAL FOUNDATION FOR WOMEN BUSINESS OWNERS, 1996

"The challenges faced by women entrepreneurs have not disappeared, however," cautions Susan Peterson, the NFWBO's chairwoman and the president of a communications-training firm also based in Washington. "Women business owners still have lower levels of available credit than their male counterparts."

The study found that 43 percent of women-owned businesses have no more than $25,000 of credit available, compared with 37 percent of men-owned businesses.

Eight hundred businesses were surveyed for the study, which also shows differences by sex in the way credit is used: Women business owners use credit primarily for growth and expansion, while men are more likely to use it to smooth out cash flow and consolidate debt.

A copy of the report, *Capital, Credit and Financing: Comparing Women and Men Business Owners' Sources and Uses of Capital*, is available for $29.95. Contact the NFWBO at *http://www.nfwbo.org* on the World Wide Web, or call (301) 495-4975.

—Sharon Nelton

CONGRESS

House And Senate Leaders Win Votes Of Confidence

The top Republican and Democratic leaders of the House and the Senate in the 105th Congress, which convenes Jan. 7, are the same lawmakers who gained passage of several politically explosive bills—including welfare and immigration reform—in the final weeks of the last Congress.

Approved by their colleagues in December for new two-year terms as House GOP leaders were Speaker Newt Gingrich of Georgia and Majority Leader Richard K. Armey of Texas. The re-elected House Democratic leaders are Minority Leader Richard A. Gephardt of Missouri and Minority Whip David E. Bonior of Michigan.

Continuing as Senate Republican leaders are Majority Leader Trent Lott of Mississippi and Majority Whip Don Nickles of Oklahoma. Top Senate Democratic leaders remain Minority Leader Thomas A. Daschle of South Dakota and Minority Whip Wendell Ford of Kentucky.

—David Warner

CHART: GEORGIA LEIGH MCDONALD

TAXES

Social Security Wage Ceiling, Earnings Limits Increase

The Social Security tax rate for employers and wage earners will remain the same in 1997 as it was in 1996—7.65 percent of wages (6.2 percent for Social Security and 1.45 percent for Medicare).

The rate for self-employed individuals, who pay both the employer and the employee portions of the payroll taxes, will remain at 15.3 percent (12.4 percent for Social Security and 2.9 percent for Medicare).

The ceiling will rise, however, on the amount of an individual's wages subject to the Social Security tax. The tax will be levied on the first $65,400 of wages in 1997, up from $62,700 in 1996. There is no ceiling on wages subject to the Medicare tax.

An increase in the Medicare tax is expected to be considered in the coming year as a way to prevent bankruptcy of the Medicare trust fund. Medicare, which helps pay health-care costs for the elderly and the disabled, is expected to go broke in 2001, according to the latest report of the fund's trustees.

Social Security recipients will receive a 2.9 percent cost-of-living increase beginning with their January 1997 checks. Benefit hikes are tied to increases in the Consumer Price Index over the previous year. The same rate increase is used for some private-sector pension plans and other federal benefits payments.

In addition, under a law enacted on March 29, 1996, the earnings limit for Social Security recipients aged 65 to 69 will increase to $13,500 in 1997, up from $11,520 in 1996. For every $3 earned over the limit, recipients lose $1 in benefits.

The earnings amount at which individuals aged 62 to 64 begin losing $1 in benefits for every $2 earned rises to $8,640 in 1997, up from $8,260 in 1996. There is no earnings penalty for individuals aged 70 or older.

The maximum monthly Social Security benefit for a worker retiring at age 65 in January 1997 is $1,326, up from $1,248 in 1996.

—Albert G. Holzinger

Managing Your Small Business

Health awareness at work; discovering unsuspected markets; a team approach to quality.

By Roberta Maynard

RISK MANAGEMENT

A Wellness Program's Bottom-Line Benefits

It was the rising cost of health insurance that prompted Steve Coffman to start a wellness program six years ago at his Chicago firm, Reid Psychological Systems (RPS), a publisher of psychological employment tests.

At the time, the company's premiums were "exorbitant—well above the national average," recalls Coffman, the company's president. Within two years of the start of the program, though, premiums had dropped, and they now are about 45 percent below the national average.

Absenteeism among RPS's 136 employees has declined as well over the past four years.

The savings are particularly important to Coffman because he pays 100 percent of the premiums for all employees who sign up for the coverage.

RPS's wellness initiatives include a no-smoking policy and an annual in-house health fair at which employees can get a free checkup. Also, employees get an extra paid day off if they have had no claims within 12 months. Tying in the notion of wellness of the community at large, RPS gives employees paid time off when they do volunteer work in the community.

Employees also can take advantage of monthly awareness seminars on subjects such as AIDS, nutrition, stress relief, and self-defense. "We decided that through education, employees become better health consumers and that that would benefit the company," says Coffman.

Though RPS now spends about $7,000 annually to promote employee wellness, the company began with modest efforts and gradually expanded as its budget allowed. "The tendency is to believe that wellness programs are [just] for deep-pocketed big businesses, but they're not," says Coffman. A small firm can start with something as simple as a wellness bulletin board.

Coffman's advice: Don't tackle all the issues at once, but survey employees to learn what's important to them; get employees to help with implementation; and make the program fun, voluntary, and nonthreatening.

For more ideas about establishing a small-business wellness program or to obtain a free cost-benefit brochure, call the Wellness Councils of America, a nonprofit group in Omaha, Neb., at (402) 572-3590.

You can also receive information through an electronic-mail request addressed to *welcoa@neonramp.com.*

PHOTO: [illegible]

A wellness program *should be fun, says Steve Coffman of Reid Psychological Systems, getting his blood pressure checked by health therapist Angela Barrett at his firm's annual health fair.*

WORK FORCE

It's Time To Line Up Your Summer Interns

January is not too soon to plan how college interns can provide low-cost help to your company this summer.

When they're chosen and managed carefully, interns can be an enthusiastic and cost-effective addition to your work force. Internships also can reduce recruiting costs by providing entry-level candidates whose skills and personalities already have been tested in your workplace. In addition, employees who have management potential can gain supervisory experience by being assigned to oversee interns.

Creamer Dickson Basford (CDB), a public-relations firm based in New York City, has had great success with its year-round internship program. It was listed in *Peterson's Internships 1996* and was named one of America's Top 100 Internships by The Princeton Review, a New York-based publisher that offers preparatory courses for standardized tests. CDB received 1,000 applications for five minimum-wage positions it filled last summer. Here are some of the company's tips for developing a successful internship program:

- Create a blueprint of interns' responsibilities and your expectations of them.
- Determine selection criteria, such as academic credentials, references, or performance on a writing test. Identify any special skills needed, such as a certain academic background, prior industry experience, or fluency in a foreign language.
- Send information about your program to the colleges you are targeting—

WORK FORCE

and to specific departments, if applicable. Post internship notices early in the year so there's time to interview and make offers well before the school year ends.

■ Integrate interns fully into the company's work. Invite them to brainstorming and strategy sessions. Take time to train them and answer their questions. CDB provides weekly training seminars that show interns all facets of public relations. At the same time, interns work as a team on pro-bono assignments as well as other projects.

"It's important to give interns meaningful work, not a summer of photocopying," says Kristin Francini, a co-manager of the program. She says purposeful work, planning, and good supervision are the keys to a mutually beneficial internship experience. ■

MANUFACTURING

A System For Developing Workers' Technical Skills

The problem faced by Robert W. DuHadaway was how to find skilled workers in an area where the decline in manufacturing had severely reduced the labor pool. Having shifted from defense work to making components for power-generation turbines, his company, DuHadaway Tool & Die Shop, Inc., in Newark, Del., needed to start producing quality products quickly.

To meet the challenge, DuHadaway met with the staffs of local vocational schools and began bringing in applicants by offering apprenticeships. But getting them to his shop was only half the battle.

To train the young workers, the company's management created the "cell" concept: a cell, or team, made up of skilled machinists and apprentices working together to produce particular products. In each cell, all members learned to operate the machinery required for completing that cell's work.

In time, the cell members learned other sets of skills by working in different cells on different types of equipment.

Because of the expertise developed within each cell, the company was soon producing highly competitive, quality products, and it had a number of new apprentices.

Last spring, DuHadaway was one of 175 companies named as state or regional honorees for 1996 in the Blue Chip Enterprise Initiative program. The program recognizes small firms that have overcome adversity and emerged stronger as a result. It is sponsored by Massachusetts Mutual Life Insurance Co., widely known as MassMutual — The Blue Chip Company, and by the U.S. Chamber of Commerce and *Nation's Business*. ■

MARKETING

Getting To The Root Of Your Target Market

The most direct users of your commercial product may not be the best targets for your marketing efforts. That was the discovery of the founder of a company that sells preserved palm trees for use in shopping malls and commercial buildings.

Dennis Gabrick, president of Preserved TreeScapes International, in Oceanside, Calif., makes his trees from preserved foliage and bark rescued from trimmers. The trees are used instead of or in addition to live trees as a way to reduce landscape-maintenance costs or in low-light areas that won't sustain real trees.

Gabrick learned that besides the building owners and managers he had originally targeted, there were other groups—for example, interior landscapers and their contractors—that incorporated his trees into their designs and thereby influenced the purchase of his products.

So he began learning about the related industries and ultimately made them his primary marketing targets. The company now has a three-pronged approach to getting new business: interior landscapers and contractors; architects and designers; and building owners, managers, and developers.

To reach them all, Gabrick attends a wide variety of industry events. In 1996 he participated in 13 trade shows. The company also belongs to several associations that represent the various groups.

In the early days, before he had many contacts, those memberships helped Gabrick get lists of contractors to approach about his product. In addition, the association contacts make it easy for the company to follow new construction and to track buildings that are planning renovations. That's how Gabrick learned about his largest project to date—200 trees for the Mirage Hotel in Las Vegas.

The company still makes direct sales calls at shopping malls, casinos, restaurants, hotels, and other commercial establishments, but most of its jobs result from its connections to those who plan, design, and build projects.

"You have to touch all the bases," says Gabrick, who expects his 10-year-old company's revenue for 1996 to be $5 million. "It's important to know the entire industry and find out what its needs are." ■

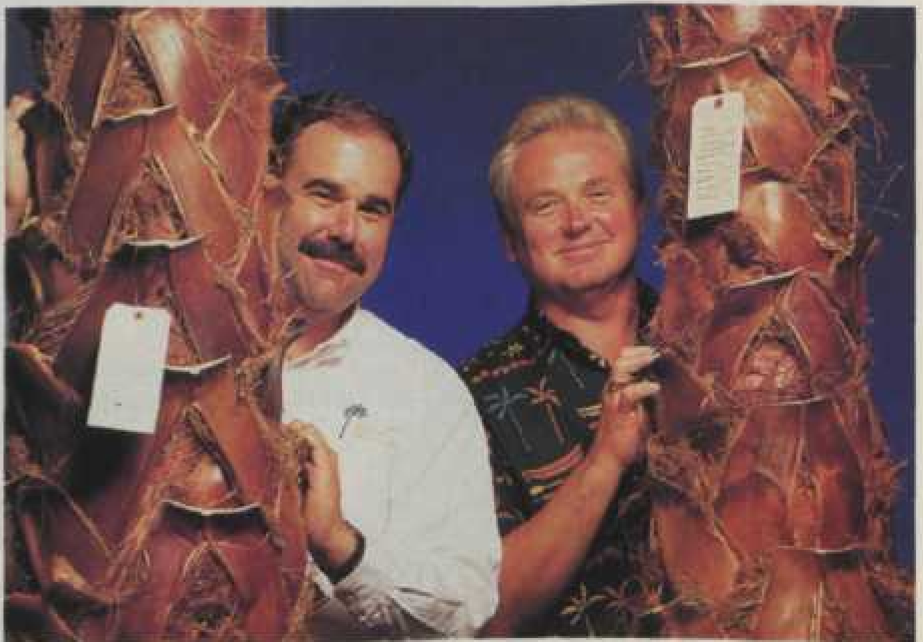

PHOTO: ©ROBERT BURROUGHS

Branching out *your marketing efforts pays dividends, say Vito Milano, left, and Dennis Gabrick, vice president and president, respectively, of a preserved-tree firm.*

NB TIP

Reaching Home Shoppers

Would you like to see your product showcased on TV specials produced by QVC, a cable-television shopping channel? QVC is looking for products from small U.S. companies as part of its '97 Quest for America's Best program. Selected products from each state will compete for national TV appearances. Qualifying products must be in production and must retail for no less than $12.95, and the manufacturer must have the rights to sell and distribute the product. To learn how to submit your product, call QVC toll-free at 1-888-505-0872. NB

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Succeeding In A Walk

By Sharon Nelton

By the late 1980s, Bob and Cindy Maynard had decided that the company they started in 1977—Vermont Country Cyclers—had grown too big. It was hard to combine the successful enterprise, which was bringing in $2 million a year by taking 6,000 people on bike trips all over the world, with a life that included a growing family (the Maynards now have three children).

Besides, Bob Maynard felt that cycling was falling out of vogue. The population was aging, he says, and he "could sense that people wanted to get back to basics."

So the Maynards sold the cycling business in 1988, and two years later they launched Country Walkers, a Waterbury, Vt., company that offers walking vacations in the United States and more than a dozen other countries, including France, Greece, Turkey, Costa Rica, and Tanzania.

What sets Country Walkers tours apart, say the Maynards, is their educational component. Each tour is led by guides, usually local, who are knowledgeable about the area—art historians, for example, or field naturalists. A tour in Italy's Tuscany region in 1997 will include afternoon cooking classes taught by professional chefs.

The tours appeal to people from age 35 to 65. "And we have people who are 70 and 80," says Bob. Trips last five to 12 days and cost from $1,200 to more than $3,700. Participants cover four to 13 miles a day.

With sales of $2.8 million, 120 trips, and more than 1,600 customers a year, Country Walkers could become as big and consuming as the bicycle-tour company was. But the Maynards say they won't let it. Their full-time office staff of seven is about half the size of the former firm's. And once Country Walkers reaches the right "critical mass" of customers—probably 2,400 to

PHOTO: ALAN JAKUBEK

Country Walkers' *Bob and Cindy Maynard conduct walking tours around the world.*

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2,500 a year—the Maynards intend to level off. Tour groups are limited to 20 each. "We want to keep it real personal," says Bob.

Cindy, 40, oversees the company's finances and books the accommodations. Bob, 45, handles marketing and designs the tours. Besides the vacation tours, Country Walkers has conducted tours for corporations, museums, and even family reunions.

Bob doesn't tell any of the type of horror stories that are often heard from other entrepreneurs. Oh, sure, there was the year early in the life of Vermont Country Cyclers when he and Cindy came up $18,000 in the red and had to live in a tent and work two jobs. But Bob says: "I feel like I've never worked a day in my life, because I like what I do. I don't consider anything I do work."

Country Walkers advertises in magazines such as *The New Yorker* and *Smithsonian* and also uses direct mail to promote its tours. "Our biggest marketing tool is our guests who go on trips," says Kathy Moyer, who oversees operations for the company. "If every one of them writes 10 postcards on a trip when they're having a great time, that's good."

The Maynards say they got better at business the second time around. They're more skillful at avoiding ambiguity with their guides and hotels, says Cindy. "Just having everything right on the table and in writing upfront eliminates problems."

One of the employee perks—the opportunity to go on some trips not as a worker but as a guest—benefits the company: Employees bring back their own perspectives on how to offer better tours. If it were left entirely up to him, Bob says, all the trips would be African safaris or hikes in obscure places like Baffin Island in the Canadian Arctic or the Patagonia region of Chile, "and we wouldn't be making any money."

The Maynards say that repeat business makes up 79 percent of their revenues, and they believe that their commitment to doing whatever it takes to make a trip great is what keeps customers coming back. If the weather is lousy, says Bob, that may mean taking the group out for a more expensive lunch than was planned.

"We certainly have budgets," says Bob, "but I always say, 'Budget, smudget. Make sure that everybody has fun.'" ■

Building A Healthy Niche

By Tim McCollum

It was a contractor's mistake 20 years ago that sparked Sandra Wilkin's decision to give up nursing and start a New York City construction firm.

The contractor was remodeling the office of a doctor in Brooklyn, where Wilkin was working as an administrative nurse. But the doctor was becoming frustrated with the contractor's plans, which included putting a waste compactor in a room next to a sterile area. "The general contractor could not understand why you would need the compactor in a different area," says Wilkin. "The people who understand know there are airborne things that can be dangerous."

Wilkin stepped in to advise the contractor on the unique requirements of a health-care facility. Twenty years later, Wilkin is still drawing on her health-care expertise, but now she's the general contractor. She is president of Bradford Construction Corp., which had sales of $5 million in 1996 and has created a healthy niche: building and renovating facilities for doctors and hospitals.

Wilkin, 45, started Bradford Construction in 1981 with then-partner Bradford Goz. They set out to lease and renovate offices for doctors, drawing on a $1.25 million loan from a capital finance company, GMS Capital in New York. Wilkin says banks and other traditional sources of capital weren't eager at the time to lend money to a new construction company, but they quickly did a turnaround when Bradford started winning contracts.

Getting the company's first jobs was tough, Wilkin says, because the company was unproven and she was a woman in a male-dominated industry. But Wilkin was able to use her health-care background to her advantage—it allowed her to better gauge her clients' needs.

"What we wound up doing was spending a lot of time with the client and understanding their business," Wilkin says. "That's different from someone who may have had the experience but didn't think it was necessary to spend that quality time with the client."

PHOTO: ARNOLD ADLER

Nurse-turned-builder *Sandra Wilkin finds that her background helps her in the construction of medical facilities.*

Bradford's big break came on a project outside health care. In 1992, the company was working on a joint venture with Fuller Construction, a major firm, on an $80 million renovation project for the city schools. When Fuller unexpectedly went out of business during the project, Bradford was left to complete the job.

"A small company handling $80 million in construction wasn't exactly how the program was supposed to go," recalls Wilkin. She says the city's School Construction Authority considered bringing in a new lead contractor. But Wilkin argued that the construction team was in place and that bringing in a new contractor would break that team apart and delay the opening of the schools in the fall. The authority saw it her way.

"With their confidence we kept it together, and those schools were opened on time," says Wilkin. Bradford's success on the project helped it to win other public-sector projects outside health care.

Wilkin keeps a close eye on Bradford's jobs, maintaining constant contact with clients and subcontractors to make sure projects are done correctly and on time. And her 18 employees have many years of construction experience. "You have to have people out there who are clearly competent to do the work to make sure that you're on top of what's going on," Wilkin says.

She believes that for her company to continue to succeed, it will have to get back to its roots in health care. Wilkin plans to team up with a new set of partners—insurance companies, health-care providers, and equipment manufacturers—to "provide a package for hospitals and physicians groups so that they can go to one source for whatever their needs are."

She sees New York City as an increasingly fertile area for health-care construction. If her hunch is right, Bradford will be well-positioned for growth. ■

A Growth Industry

By Carla Goodman

For Ed Kleiner Jr., the seeds of native Western plants are the seeds of a successful small business. The 39-year-old owner of Comstock Seed Co., near Reno, Nev., sells tons of seeds in hundreds of varieties and special blends.

The U.S. Forest Service, a frequent customer, requests truckloads of seeds for fire restoration and erosion control of prime national parklands. Mining companies, which account for 65 percent of Kleiner's business, need seeds to rehabilitate lands scarred by gold and silver extraction.

Homeowners, too, call Kleiner for an ounce or two of rare flower seeds for their gardens—Western red columbine is a favorite request, even at $350 an ounce.

"We're specialists," says Kleiner, who is assisted by his wife, Linda—the firm's accountant—and two full-time employees. While his competitors deal in volume and may sell generic seeds throughout the West, what they sell is not always locally adaptable, Kleiner notes.

"A plant seed that does well in Arizona won't grow in Washington. The plant's genetic programming can't handle the extreme fluctuations in weather," says Kleiner, who concentrates on providing the right seeds to the right market.

Kleiner scouts the Western states for seeds, primarily on public lands under permits from the Forest Service or the federal Bureau of Land Management. Part-time pickers are hired to help harvest.

Using old tennis racquets purchased at thrift stores, they beat away at bushes and shrubs and toss the seeds into a large catcher, made of canvas and tapered at one end so the seeds can be easily poured into bags. "It's a 1,000-year-old technique," says Kleiner. "We added electrical conduit around the outside edge of the canvas to make it more secure."

Carla Goodman is a free-lance writer in Sacramento, Calif.

PHOTO: ©RA MARK GOSTIN

Seed gatherer *Ed Kleiner's Nevada firm, Comstock Seed, specializes in varieties tailored to the terrain and in seeds for restoring damaged lands.*

During a typical season, Kleiner and his pickers gather 30,000 pounds of seeds; about 70 percent of the work is done from October through December. The harvest is cleaned to remove plant stems and other debris, then bagged and tagged for identification.

As required by federal law, the seeds are sent to an independent laboratory, where they are tested for purity, germination, and weed content. Only part of a day's harvest—anywhere from less than 1 percent to 50 percent, Kleiner notes—turns out to be suitable for sale.

Kleiner enjoys working on large, complex projects. Comstock recently provided seeds to restore land along a 230-mile pipeline that carries natural gas from Malin, Ore., to Reno. The pipeline, constructed by the Tuscarora Gas Transmission Co., passes through five ecological zones.

"To maintain the area's genetic integrity, we were required to select seeds in species that occurred in these five areas and pick them within a 50-mile corridor of the pipeline," Kleiner says.

For U.S. Borax, Comstock is providing seeds for test plots for a massive reclamation project at an open pit mine in the Mojave Desert in California.

Kleiner is optimistic that the plots will eventually lead to a contract to provide enough seeds to fill 5,000 acres, a project that would keep Comstock busy into the next century.

Big contracts like these are generating healthy sales for the small operator. In 1995, Comstock grossed $300,000 in sales, up from $200,000 in 1993. Most of Kleiner's business has a high margin, which can reach 1,000 percent, depending on supply and demand for certain choice seeds. "With seeds we hand-harvest and collect, there's a higher margin, because the seeds are rare," he says. Only a small portion of Kleiner's inventory—seeds free of weeds and other debris—can be harvested mechanically.

Kleiner says he's had a lifelong fascination with seeds. As a youngster, he helped his father, a botanist, complete work on his doctorate in grassland ecology by counting and recording seeds.

Years later, after earning a business degree from the University of Nevada, Kleiner worked briefly for a local firm, but he quit to harvest and wholesale seeds for coal mines in Wyoming. He cut short his study of law at Lewis & Clark College, in Portland, Ore., to return to the land permanently.

"Instead of clerking for a judge during school breaks, I'd pick seeds in the Mojave Desert," recalls Kleiner, whose company is now 12 years old. "But what I learned about public-land law, property law, and environmental legislation has been very helpful to the business."

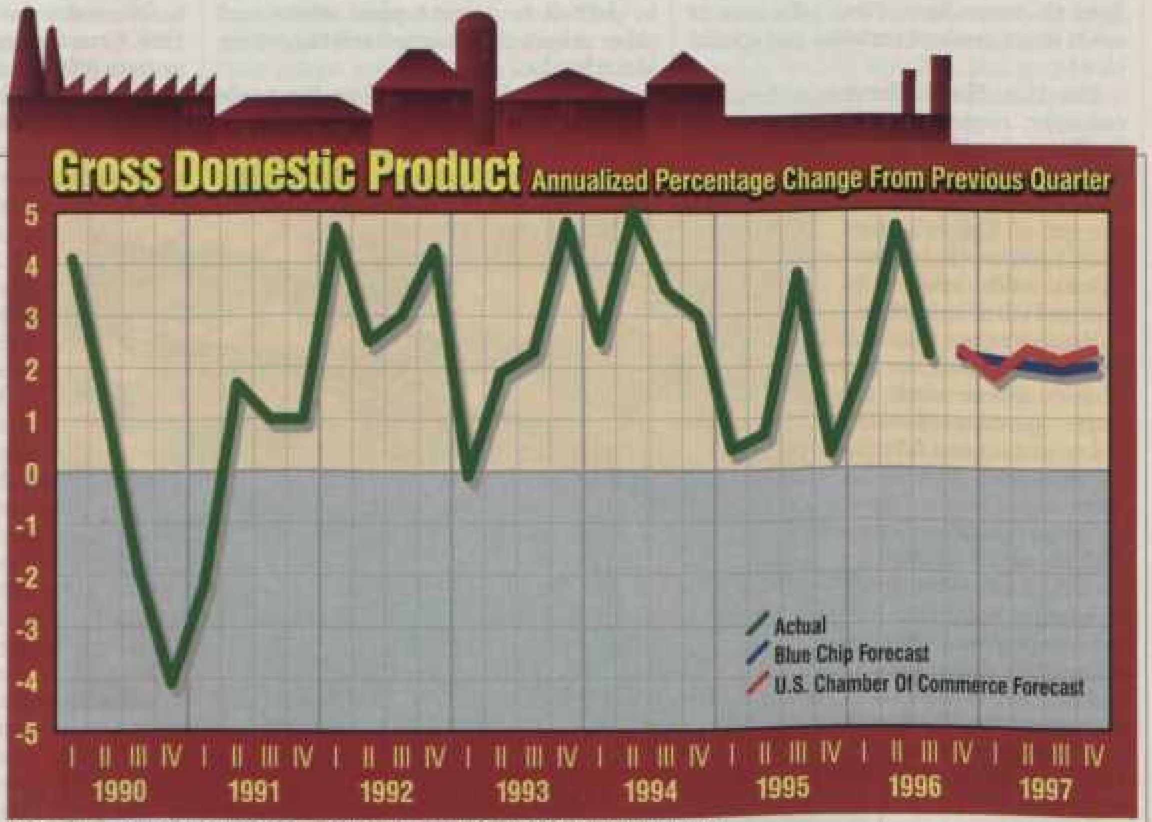
Kleiner also has learned that working closely with public-land agencies and abiding by the permit process, which can add 15 percent to his costs, are good for business, too.

"We've received so many referrals from public-land agencies by doing business the right way," says Kleiner, who frequently is asked to draw up specifications for projects that public agencies want to put up for bid. "This makes Comstock Seed part of the permit process, which is an exciting place to be." NB

COVER STORY

Clear Sailing?

By James Worsham



SOURCES: U.S. DEPARTMENT OF COMMERCE; U.S. CHAMBER OF COMMERCE; BLUE CHIP ECONOMIC INDICATORS

It hasn't been glamorous or glitzy, and you certainly couldn't call it go-go. But the current U.S. economic expansion has been durable: It will be six years old in March and could go on another year or two.

Since the recovery began in 1991, it has not always looked like one. It has been especially tough for many big businesses and some of their employees: Global competition and the burgeoning use of technology have spurred waves of corporate downsizings and job turnover.

Small and midsize companies, meanwhile, have accounted for most of the 9 million jobs created so far in this decade.

As big businesses "right-sized" and many small firms flourished, the overall climate for growth—measured by inflation and interest rates—remained favorable.

In the view of most economists, that favorable climate will continue in 1997.

"The outlook, at least for 1997 and most of 1998, is sanguine. The environment should be a good one for small business," says Mark M. Zandi, chief economist for Regional Financial Associates, a West Chester, Pa., economic-research firm.

Kenneth Mayland, senior vice president and chief economist of KeyCorp, a nationwide banking and financial-services firm headquartered in Cleveland, says: "We can string out this expansion probably for a couple more years."

Nevertheless, for small businesses, the continuing recovery offers both grounds for optimism and reasons to be cautious. Among the optimistic expectations:

- The U.S. economy is expected to continue to grow modestly—perhaps a bit slower than in 1996, but most economists see no signs of a recession in 1997.
- Inflation and unemployment are expected to remain at relatively low levels.
- Capital for expansion and new equipment will be easily available to those who qualify.

On the cautionary side:

- Lending authorities warn against taking on too much new debt, just in case the economy sours.
- There will be pressure to increase wages and benefits—from individual employees, unions, and the tight labor market—but debt-ridden consumers will balk at price hikes to pay for such increases.
- Small firms will continue to have a tough time finding qualified, skilled workers, especially in the Midwest and the Mountain States.

Depending on a small business's point of view, divided government in Washington can be seen as a plus or a minus. The reelection of a Democratic president and a Republican-controlled Congress make it unlikely that there will be radical legislative changes or major policy initiatives. (For more on the legislative outlook, see "Look For A More Pragmatic Congress," on Page 25.)

The current recovery now ranks as the third-longest since World War II. But it has reached maturity, with no more pent-up consumer demands to satisfy. While most economists believe a recession will not occur in 1997, they say that if one eventually does, it probably won't be deep or long.

Even though the recovery has been long, it has not been as strong throughout its duration as some of the previous expansions, as measured by the gross domestic product (GDP)—the broadest measure of the nation's output of goods and services. GDP growth has hovered in the range of 2 to 2.5 percent per year instead of the 3 to 4 percent range of previous postwar

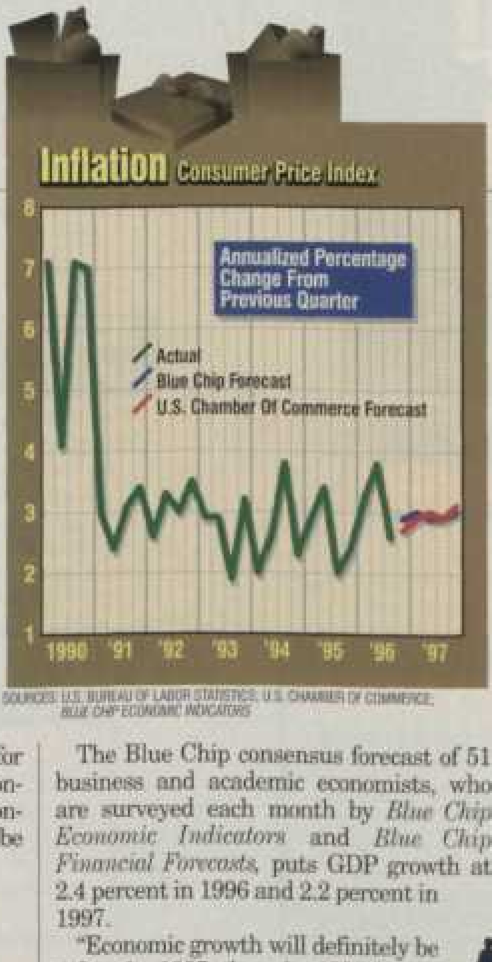
CHARTS: ALBERTO PACHECO

The long period of slow economic expansion shows little sign of ending in 1997, signaling both opportunity and reasons for caution for small businesses.

expansions over their durations.

Against that backdrop, the economy in the coming year will be a lot like that of 1996 but will grow a bit slower, says Martin A. Regalia, vice president and chief economist of the U.S. Chamber of Commerce. The Chamber is estimating that the GDP will increase 2.3 percent in 1997—below its estimate of 2.4 percent for 1996. (GDP performance for the full year can only be estimated until fourth-quarter 1996 figures become available in late January.) Moreover, according to the Chamber, the first quarter is expected to post the slowest growth rate of 1997. (See the chart on Page 16.)

A slight slowdown, Regalia says, would likely be the result of a reduction in consumer spending, which accounts for two-thirds of the economy. "We see the economy slowing," he says, largely because consumers, faced with heavy debt loads, will be spending "in more modest proportions."



SOURCES: U.S. BUREAU OF LABOR STATISTICS; U.S. CHAMBER OF COMMERCE; BLUE CHIP ECONOMIC INDICATORS

The Blue Chip consensus forecast of 51 business and academic economists, who are surveyed each month by *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*, puts GDP growth at 2.4 percent in 1996 and 2.2 percent in 1997.

"Economic growth will definitely be softer in 1997 than in 1996," says Randall Moore, the top editor for the two Blue Chip publications, both issued by Capitol Publications, Inc., of Alexandria, Va. Moore says the U.S. economy could grow faster than expected if the European and Japanese economies, which are beginning to rebound after being stagnant in recent years, create demand for U.S. goods and services.

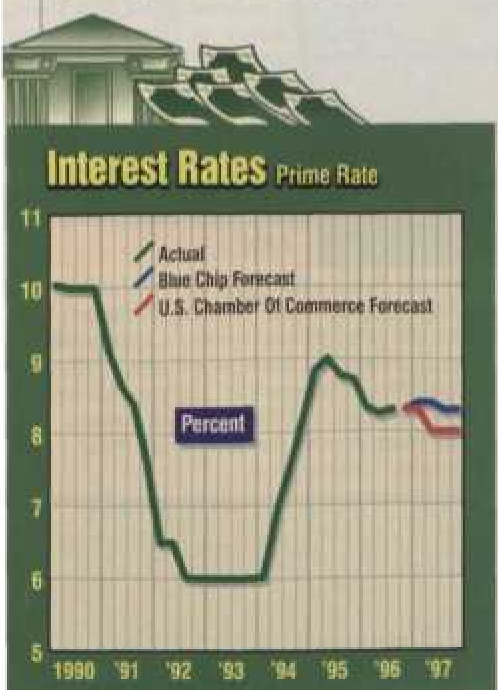
Regalia says that the modest growth of the U.S. economy in recent years mitigates against a recession in 1997 by eliminating the potential for big economic swings up or down. What could trigger a recession, he and others warn, are unforeseen occurrences such as wars, oil-supply interruptions, or destabilizing incidents like the Iraqi invasion of Kuwait in August 1990.

Not everyone foresees a softening of the economy in 1997. Michael Conte, director of the Regional Economic Studies Institute, at Towson State University, in Towson, Md., sees GDP growth as high as 3.0 percent in the coming year unless the Federal Reserve Board raises interest rates. "We don't really see any type of a slowdown in 1997," he says.

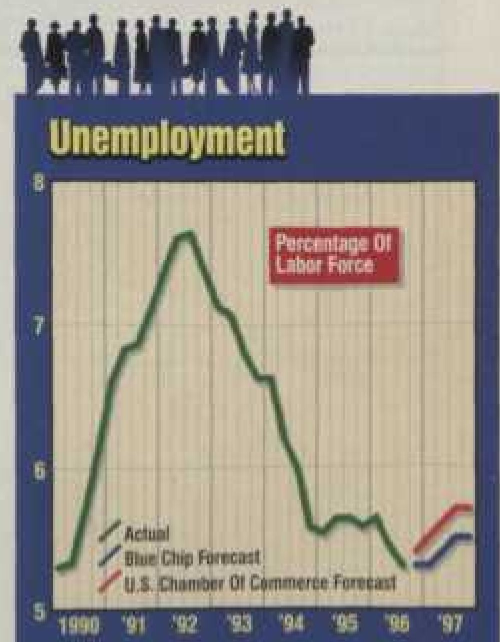
Various indicators paint a picture of an economy that is positive for small business:

■ Consumer confidence, as measured by The Conference Board, a New York City business-research firm, remains high. The Consumer Confidence Index for November 1996 was 107.3, well above the 88.4 of January 1996 and only slightly below the high for the first 11 months of 1996—112.0 in August.

When the components that make up the November index are broken down, however, they show that consumers are more confident about the present than about the future. The index for the "present situation" is about 40 points ahead of the index



SOURCES: U.S. FEDERAL RESERVE BOARD; U.S. CHAMBER OF COMMERCE; BLUE CHIP FINANCIAL FORECASTS

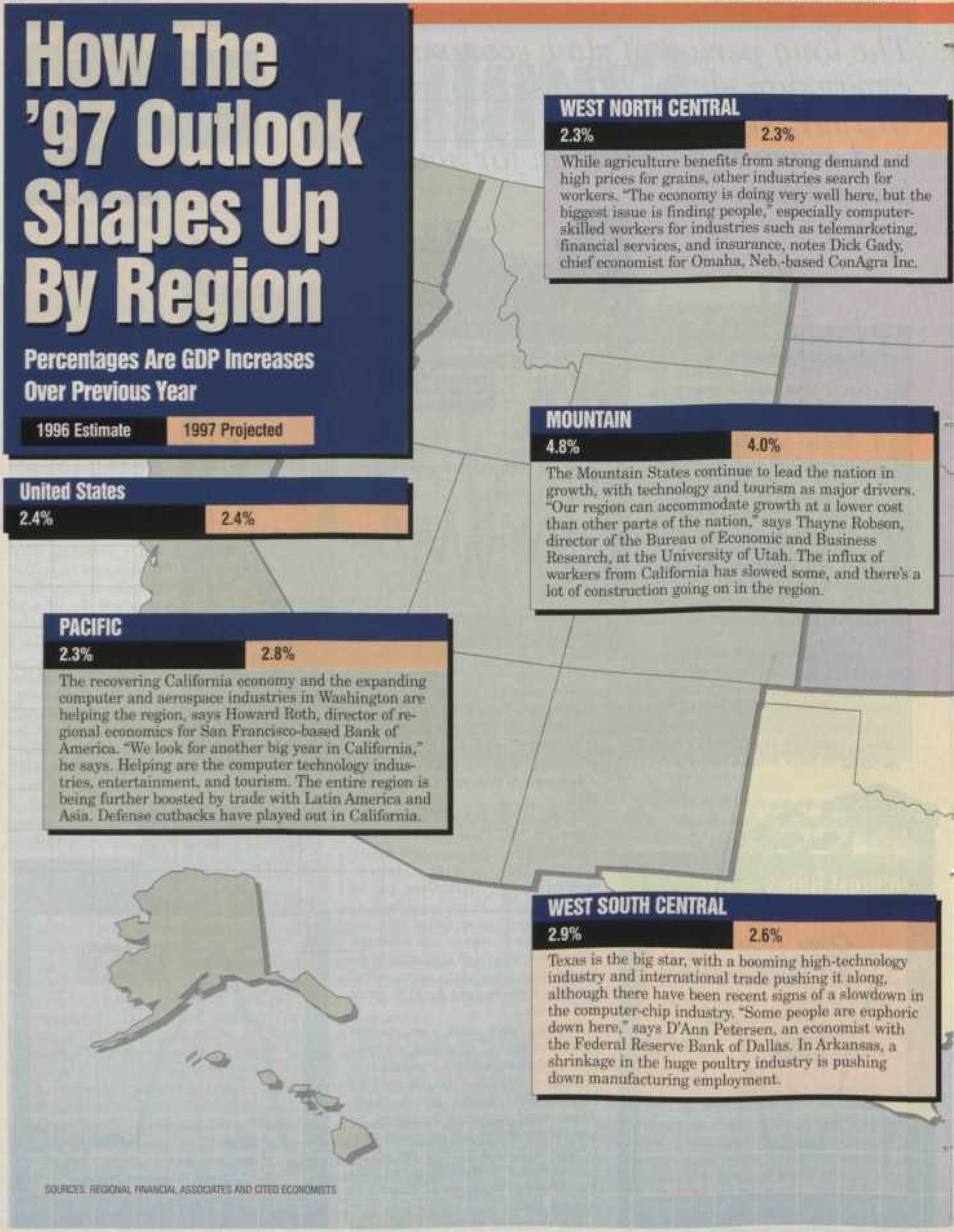


SOURCES: U.S. BUREAU OF LABOR STATISTICS; U.S. CHAMBER OF COMMERCE; BLUE CHIP ECONOMIC INDICATORS

How The '97 Outlook Shapes Up By Region

Percentages Are GDP Increases Over Previous Year

1996 Estimate	1997 Projected



United States

1996 Estimate	1997 Projected
2.4%	2.4%

WEST NORTH CENTRAL

1996 Estimate	1997 Projected
2.3%	2.3%

While agriculture benefits from strong demand and high prices for grains, other industries search for workers. "The economy is doing very well here, but the biggest issue is finding people," especially computer-skilled workers for industries such as telemarketing, financial services, and insurance, notes Dick Gady, chief economist for Omaha, Neb.-based ConAgra Inc.

MOUNTAIN

1996 Estimate	1997 Projected
4.8%	4.0%

The Mountain States continue to lead the nation in growth, with technology and tourism as major drivers. "Our region can accommodate growth at a lower cost than other parts of the nation," says Thayne Robson, director of the Bureau of Economic and Business Research, at the University of Utah. The influx of workers from California has slowed some, and there's a lot of construction going on in the region.

PACIFIC

1996 Estimate	1997 Projected
2.3%	2.8%

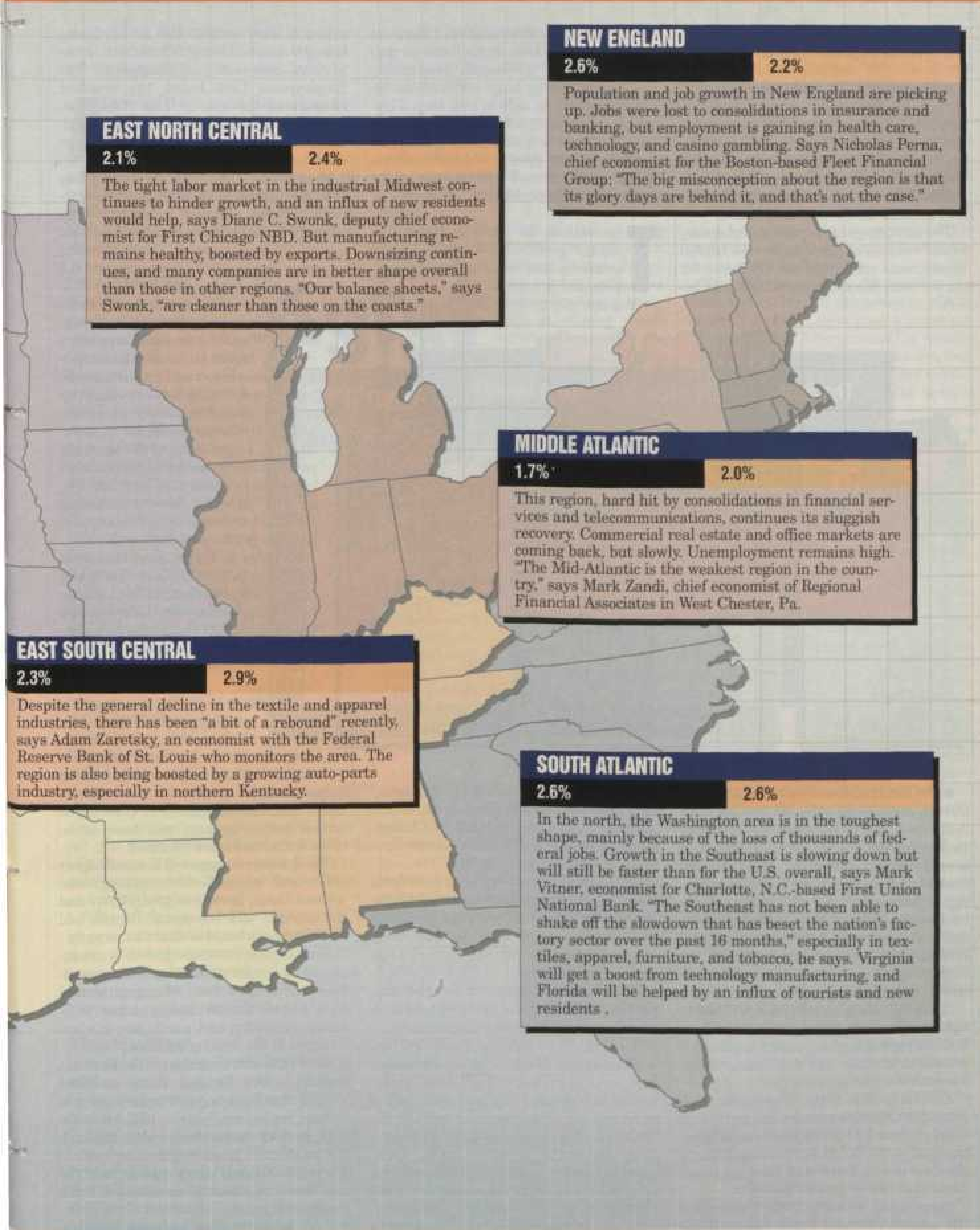
The recovering California economy and the expanding computer and aerospace industries in Washington are helping the region, says Howard Roth, director of regional economics for San Francisco-based Bank of America. "We look for another big year in California," he says. Helping are the computer technology industries, entertainment, and tourism. The entire region is being further boosted by trade with Latin America and Asia. Defense cutbacks have played out in California.

WEST SOUTH CENTRAL

1996 Estimate	1997 Projected
2.9%	2.6%

Texas is the big star, with a booming high-technology industry and international trade pushing it along, although there have been recent signs of a slowdown in the computer-chip industry. "Some people are euphoric down here," says D'Ann Petersen, an economist with the Federal Reserve Bank of Dallas. In Arkansas, a shrinkage in the huge poultry industry is pushing down manufacturing employment.

SOURCES: REGIONAL FINANCIAL ASSOCIATES AND CITED ECONOMISTS



NEW ENGLAND

2.6% 2.2%

Population and job growth in New England are picking up. Jobs were lost to consolidations in insurance and banking, but employment is gaining in health care, technology, and casino gambling. Says Nicholas Perna, chief economist for the Boston-based Fleet Financial Group: "The big misconception about the region is that its glory days are behind it, and that's not the case."

EAST NORTH CENTRAL

2.1% 2.4%

The tight labor market in the industrial Midwest continues to hinder growth, and an influx of new residents would help, says Diane C. Swonk, deputy chief economist for First Chicago NBD. But manufacturing remains healthy, boosted by exports. Downsizing continues, and many companies are in better shape overall than those in other regions. "Our balance sheets," says Swonk, "are cleaner than those on the coasts."

MIDDLE ATLANTIC

1.7% 2.0%

This region, hard hit by consolidations in financial services and telecommunications, continues its sluggish recovery. Commercial real estate and office markets are coming back, but slowly. Unemployment remains high. "The Mid-Atlantic is the weakest region in the country," says Mark Zandi, chief economist of Regional Financial Associates in West Chester, Pa.

EAST SOUTH CENTRAL

2.3% 2.9%

Despite the general decline in the textile and apparel industries, there has been "a bit of a rebound" recently, says Adam Zaretsky, an economist with the Federal Reserve Bank of St. Louis who monitors the area. The region is also being boosted by a growing auto-parts industry, especially in northern Kentucky.

SOUTH ATLANTIC

2.6% 2.6%

In the north, the Washington area is in the toughest shape, mainly because of the loss of thousands of federal jobs. Growth in the Southeast is slowing down but will still be faster than for the U.S. overall, says Mark Vitner, economist for Charlotte, N.C.-based First Union National Bank. "The Southeast has not been able to shake off the slowdown that has beset the nation's factory sector over the past 16 months," especially in textiles, apparel, furniture, and tobacco, he says. Virginia will get a boost from technology manufacturing, and Florida will be helped by an influx of tourists and new residents .

for "future expectations," compared with a gap of about 20 points early in 1996.

■ The periodic "Trendsetter Barometer" survey by accounting firm Coopers & Lybrand—a poll of those who run some of the fastest-growing companies in the country, many of them small firms—shows a "fairly positive picture," according to Pete Collins, director of entrepreneurial advisory services for Coopers & Lybrand.

The percentage of respondents planning to add workers or make major new capital investments was up in the third-quarter survey from the same period the year before.

The Hot Spots

The Best Places To Start And Grow A Business

The Top 10 States

1. Utah
2. Arizona
3. Nevada
4. Alabama
5. Virginia
6. Georgia
7. Colorado
8. Tennessee
9. Florida
10. New Mexico

The Top 10 Large Metropolitan Areas

1. Salt Lake City/Provo
2. Atlanta
3. Birmingham/Tuscaloosa, Ala.
4. Phoenix
5. Washington, D.C.
6. Orlando, Fla.
7. Raleigh/Durham, N.C.
8. Minneapolis/St. Paul
9. Indianapolis
10. Nashville, Tenn.

The Top 10 Small Metropolitan Areas

1. Las Vegas
2. Huntsville, Ala.
3. Austin, Texas
4. Boise, Idaho
5. Albuquerque, N.M.
6. Sioux Falls, S.D.
7. Tucson, Ariz.
8. Pensacola, Fla.
9. Lincoln, Neb.
10. Springfield, Mo.

SOURCE: COGNETICS, INC.

■ The National Small Business Attitudes Survey, conducted in the fall by Cicco and Associates, Inc., an economic-research firm in Murrysville, Pa., echoed the optimism over spending and hiring plans. It also showed that in two areas the survey considers bellwethers for a recession—business news (subscriptions, news services) and travel (airlines, hotels, rental cars)—respondents planned to maintain or slightly increase their spending compared with last year's levels.

"Usually, when small business starts tightening its belt, [these areas are] where it starts tightening," says John A. Cicco Jr., president of Cicco and Associates. "Now, we don't see that tightening."

Although the U.S. Chamber's own Business Confidence Index fell to 53.5 in October from 54.8 in August—its high for the year was 56.2 in April—Regalia says the drop is consistent with the Chamber's forecast of slower growth this year.

Despite the slower-growth forecast for the overall economy, Steve Alesio, president of American Express Small Business Services, a unit of American Express, says that small firms will benefit from continued downsizing by large corporations because they will be able to pick from a bigger pool of experienced workers than in the past. That will be good news, he adds: "We actually see the growth of small business outpacing the overall GDP growth [of the nation] over the next five to 10 years."

The outlook for continued slow but steady growth belies some serious problems that restrain the economy's potential to expand.

"You can only grow as fast as your labor force grows and productivity increases," says Diane C. Swonk, deputy chief economist for First Chicago NBD, a Chicago-based bank. And both of those factors have been a drag on faster growth.

The unemployment rate hit a seven-year low of 5.1 percent in August, and the economy is creating an average of about 200,000 jobs a month at a time when many employers can't find workers with the necessary qualifications.

Indeed, as the tightness of the labor supply slows overall growth, the slowdown of growth reduces the pace of job creation.

David Birch, president of Cognetics, Inc., a Cambridge, Mass., business-research firm, says 13 million U.S. jobs will be created in this decade. But because 9 million were created in the first six years of the 1990s, that leaves about 1 million a year to be created in the rest of the 1990s. "We're going to have a slowdown" in job creation, he says. "We've milked most of it out of the decade."

As unemployment fell, many economists expected labor costs to rise as employers bid up wages and benefits to attract scarce workers. But that hasn't happened. The Employment Cost Index, the broadest measure of the cost of labor (which accounts for two-thirds of the cost of production), has risen only modestly. (See the chart on Page 21.)

Meanwhile, productivity growth has been slow in the 1990s compared with previous decades, although it has picked up recently. Productivity rose only 0.2 percent in the third quarter of 1996, following quarterly increases of 1.7 percent and 0.5 percent earlier in the year.

One of the problems with productivity growth may lie in the way it is measured. When the economy was more heavily based on manufacturing—and worker hours and output could be more easily measured—productivity could be gauged relatively accurately. Now, with the service sector accounting for a larger share of the economy, productivity is harder to measure because the delivery of services frequently does not involve punching time clocks or measuring the output of tangible products at day's end.

Nicholas S. Perna, chief economist for Boston-based Fleet Financial Group, suggests that the difficulty in measuring productivity in the service industries may be resulting in undermeasurements. It's likely, he adds, that "we've been growing faster than we thought."

The Chamber's Regalia suggests that the problem with gauging productivity is more than just measurement. In the service sector, he notes, "one individual who knows something helps another individual who doesn't know." And for productivity to grow in the service sector, workers will have to be more skilled and more educated.

"The information age will demand higher skills and more-effective training, and without them, growth in productivity and the economy will not occur," Regalia told the Chamber's board of directors recently.

Even though economic growth is not expected to accelerate anytime soon, small-business owners and managers should have a good shot at finding money to finance expansion and purchases, say authorities in the lending business.

Terri Dial, vice chairman of the business banking group for San Francisco-based Wells Fargo Bank, says, "Credit is going to be very readily available in 1997." But she says lenders are concerned that the high consumer-debt levels might carry over to the small-business sector, so they won't be any less scrupulous in assessing a firm's creditworthiness.

Adds Larry Winters, assistant vice pres-

ident of Dun & Bradstreet Small Business and Express Services: "I don't see capital—getting capital—as a major issue."

Although the fairly stable and moderately growing economy means no big shocks for small business, it doesn't necessarily mean smooth sailing ahead. Experts who follow small business closely offer these suggestions for profiting from a moderate economy and at least minimizing the effects of a slowdown if one occurs:

Find A Different Way

"Small businesses ought to think of other ways to do whatever they do," says Dun & Bradstreet's Winters.

As an example of how a small business's fortunes may turn, Winters notes how electronic commerce has eliminated the need for layers of firms that distribute products, making it possible for customers to order directly from manufacturers.

Computer technology is going to change many of the things business does, and Winters forecasts that small firms will be the "most negatively affected" by the change.

Watch The Books

Roger Harris, president of Padgett Business Services, an Athens, Ga., firm that provides business services to small companies nationwide, says small-business owners and managers should know not only their product or service but also how to run the business—even if they're outsourcing tasks such as bookkeeping and payroll preparation.

"Money can come and go very quickly," he says. "It's becoming more and more important that you be involved in the management of your company. It's not just knowing how to fix the car, it's knowing how to run the business that fixes the car."

Retrain Your Workers

If you're having trouble finding the right workers for the right jobs, as many small firms are, retrain some of your current workers.

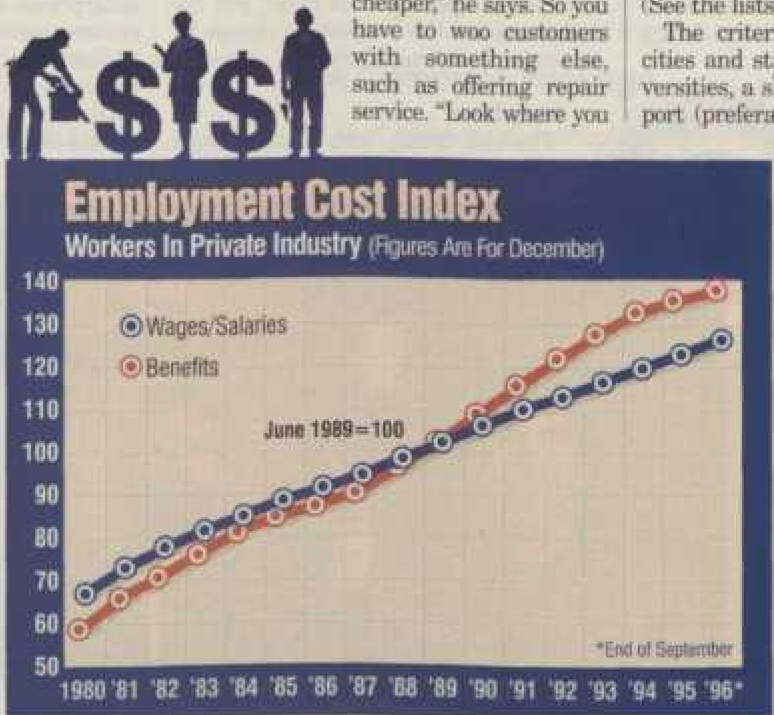
"This is the best opportunity in years labor has had to enhance its skills," says KeyCorp's Mayland. "It behooves companies to think about training and enhancing skill levels internally."

The result may be that you have to pay a worker higher wages, but at least you know whom and what you're getting. "Why pay more for an unknown quantity?" Mayland asks.

Specialize In Service

If you expect to make it in an era of mammoth discount retailers, you have to be able to compete on something besides price, says Padgett Business Services' Harris.

"Unless your product is unique, a big company is going to come in and sell it cheaper," he says. So you have to woo customers with something else, such as offering repair service. "Look where you would take that item when it breaks. You're going to take it to a small-business man," Harris says.



SOURCE: U.S. BUREAU OF LABOR STATISTICS

Bruce Van Kleeck, vice president for retail services at the National Retail Federation, in Washington, D.C., suggests gathering lots of demographic information on customers and "smothering them with service."

Borrow Carefully

While credit will generally be available to small businesses in 1997, it's important that owners and managers of small firms act with care in taking on debt to finance equipment or real-estate purchases, warns Wells Fargo's Dial.

Be wary of new lenders in the credit marketplace, she says, and be sure to find out how many small-business borrowers your prospective lender has.

Also, says Dial, make sure that the call date of the loan is "at least past three years" so payments could be spread out and wouldn't be too high during any economic downturn that might occur in the next few years. And if you are going to expand or modernize, she suggests, "don't do it with 100 percent credit."

Consider Relocating

Some parts of the country are better places than others for small businesses and entrepreneurs, says Cognetics' Birch. Each year, Cognetics issues a list of "entrepreneurial hot spots"—large cities, small cities, and states—that are considered the most promising areas for small businesses. (See the lists on Page 20.)

The criteria used in determining the cities and states are the presence of universities, a skilled labor pool, a major airport (preferably international), a broadly shared view that the location is a "nice place to live," and whether the area is hospitable to entrepreneurs seeking to develop and grow new businesses.

While there are no guarantees, economists generally agree that 1997 should be a relatively tranquil time for small businesses, barring unforeseen shocks.

Although a recession or merely a slight downturn could occur in the next few years, a calm period is indicated for 1997. And even if there are some rough seas ahead, experts believe a downturn would not be too bad for small businesses. "The more moderate recovery has put far less strain on the financial capabilities of companies," Dial says.

William Dunkelberg, a professor of economics at Temple University, in Philadelphia, and a noted small-business expert, cautions that there's still no good reason to take needless risks, such as borrowing money just because you can get it.

"You've got to have a reason to borrow," he says. "Unless you see how you can really expand, hang tight and enjoy making money in this nice environment."

But whether you're making money or not, the continued slow but steady growth in the U.S. economy may make it a good time for small firms to focus more on their product or service, rein in the costs of doing business, learn about technology, and shore up their finances.

And look for that better mousetrap. NB

To order a reprint of this story, see Page 45.
For a fax copy, see Page 24.

FINANCE

Loans With Interest —And Principle

Some bankers are willing to place faith in companies with dual bottom lines—profitability and social responsibility.

By Sharon Nelton

Two years ago, Bagel Works, a Keene, N.H., company that makes bagels and has a chain of bagel cafes, was expanding. Trouble was, it was losing money, and it wasn't getting much sympathy from its bank.

The nine-year-old business identifies itself as a "socially responsible" company, one that has dual bottom lines: a traditional one aimed at profitability and another aimed at benefiting employees, the community, and the environment.

For example, it practices gain sharing—offering financial incentives to employees to meet certain targets. It also encourages employees to participate in wellness programs; uses organically grown ingredients, which are often expensive; and donates about $10,000 worth of product a year to community groups.

"The bank loan officer really struggled with the fact that we were incurring these extra expenses while we weren't making money as a company," says Jennifer V. Pearl, managing partner and a founder of Bagel Works.

In the banker's eyes, Bagel Works' socially responsible practices hurt its monetary bottom line. In Pearl's eyes and the eyes of Richard F. French II, the company's president, such practices make their company stronger and ultimately more profitable.

Gain sharing, for example, means a more committed and stable work force and reduces recruitment and training costs. Product donations to community groups increase customer loyalty and introduce future customers to the firm's bagels.

"We were trying to convince this particular banker of our need to expand and to persuade him that while Bagel Works was showing losses, that wasn't uncommon in an expansion period," says Pearl. But the banker wanted the company to change its principles; the owners refused.

With this issue, Nation's Business *is introducing Finding Capital, a monthly feature to help small companies locate the financing they need to run their businesses.*

Rocky Times

Through family and friends, Bagel Works has been successful in getting private investors who supported the company's social goals.

But Bagel Works has had rocky times with lenders. "We went through a vast array of banks," says Pearl. "The first bank we started with changed hands three times within the first year and a half."

Committed to both their principles and their desire to expand, Pearl and French turned hopefully to someone they had met at community events: David Berge, a vice president of Vermont National Bank and director of its Socially Responsible Banking Fund, in Brattleboro.

Started in 1989, the SRB Fund has attracted $107 million from 11,000 customers in 42 states and 16 countries who want their deposits used for lending to enterprises such as affordable housing, environmental projects, educational organizations, family farms, and small businesses. (Like conventional deposits, SRB Fund deposits are federally insured up to $100,000. Interest rates on fund accounts are competitive, the bank says.)

Determined to expand *while pursuing their firm's social goals, Bagel Works' Richard French, left, and Jennifer Pearl found a willing lender in David Berge, vice president of Vermont National Bank.*

The SRB Fund in 1995 approved two loans for Bagel Works totaling $681,000, enabling the firm to expand its headquarters in Keene and to open a cafe in Portsmouth, N.H. The new cafe brought the firm's store total to seven in four states. Interest on the loans is the prime rate plus 1 percent, probably slightly lower than Bagel Works might have paid elsewhere, given its financials at the time, according to Berge.

Multiple Reasons

What persuaded Berge and the SRB Fund to take a risk on a company that was losing money? What he saw in Bagel Works, he says, was what Pearl and French saw. It

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FINANCE

was going to increase employee loyalty and decrease turnover by treating employees well. "A company that treats its workers right is probably going to treat its lender right," says Berge.

"Committed workers tend to make a higher-quality product," he adds. "High quality means a better reputation in the community."

Bagel Works had also planned for the losses that expansion would generate by raising $500,000 in equity in 1995 and setting aside cash reserves—signs of a responsible company, Berge says.

And finally, Berge saw the possibility of a relationship of trust between his bank and Bagel Works. "When something is coming up at Bagel Works, we're not going to be the last to know—good news or bad news, either one," he says. "We know that we don't have to be on the telephone every day trying to wheedle out information. We know that they're going to call us."

Vermont National Bank's faith in its socially responsible clients is apparently well-placed. The bank reports that while the yield of these loans may be a little less than that of the rest of its portfolio, the quality of the loans is better, with a delinquency rate of zero percent on commercial loans of over 90 days.

As for Bagel Works, sales in 1996 were $3.8 million, up from $3.5 million the year before, says Pearl, and the company is once again profitable.

Vermont National Bank, says Pearl, "really helped us get over some of the financial obstacles that we were facing at that time."

There aren't many funding resources like the SRB Fund for companies that want to emphasize social responsibility along with profitability. Berge says some community-development banks and credit unions do similar funding, and as many as 60 banks called Vermont National last year to learn more about financing such companies.

But not to worry. Berge says that although entrepreneurs who operate socially responsible companies may have the perception that it's harder for them to get traditional financing, it's not really true.

"From the perspective of the financial world, working with those companies is exactly the same as working with other companies," he says. Where such companies may run into trouble, he notes, is in translating their activities "into a language that can be understood by the lender."

That doesn't mean these firms have to prove that each activity contributes to the bottom line. "What you have to show is that this whole barrel of activities will lead to a bottom line that has healthy cash flow," Berge says.

He offers these additional tips to socially responsible companies for getting financing and maintaining a good relationship with their bankers:

■ Look for a loan officer who understands what you are trying to do and who is senior enough to make decisions.

■ Always invite the loan officer to visit your business. When a potential lender sees a company where people are happy to come to work in the morning, Berge says, "that's going to make some difference when that [loan] decision comes through."

■ Be forthcoming about your activities, and know your numbers. Tell a lender what your company does and why it's important, and then show how you're going to make it work financially.

■ Treat your bank like your biggest customer. In doing so, says Berge, "you would court them, you would strategize, you would design something that meets their needs. If you think about your bank that way, you're going to walk yourself into financing."

Jennifer Pearl recommends staying focused on the traditional bottom line. "If you don't have a strong bottom line," she says, "you can't do any of these socially responsible programs."

And finally, don't underestimate the power of networking and getting your story out to the public. Bagel Works won over the SRB Fund in part because Berge had already met Pearl and French and knew about the company's reputation. And the company found its investors because its principals knew someone who knew someone.

Says Pearl: "Word of mouth is tremendously powerful." NB

Further Contacts

To learn more about financing for companies with dual bottom lines, contact the Socially Responsible Banking Fund, Vermont National Bank, P.O. Box 804, Brattleboro, Vt. 05302; 1-800-772-3863.

For more information about businesses and social responsibility, contact these organizations:

■ Business for Social Responsibility, 1683 Folsom St., San Francisco, Calif. 94103-3722; (415) 865-2500.

■ Vermont Businesses for Social Responsibility, 30 Community Drive, Suite 2, South Burlington, Vt. 05403-6830; (802) 862-8347.

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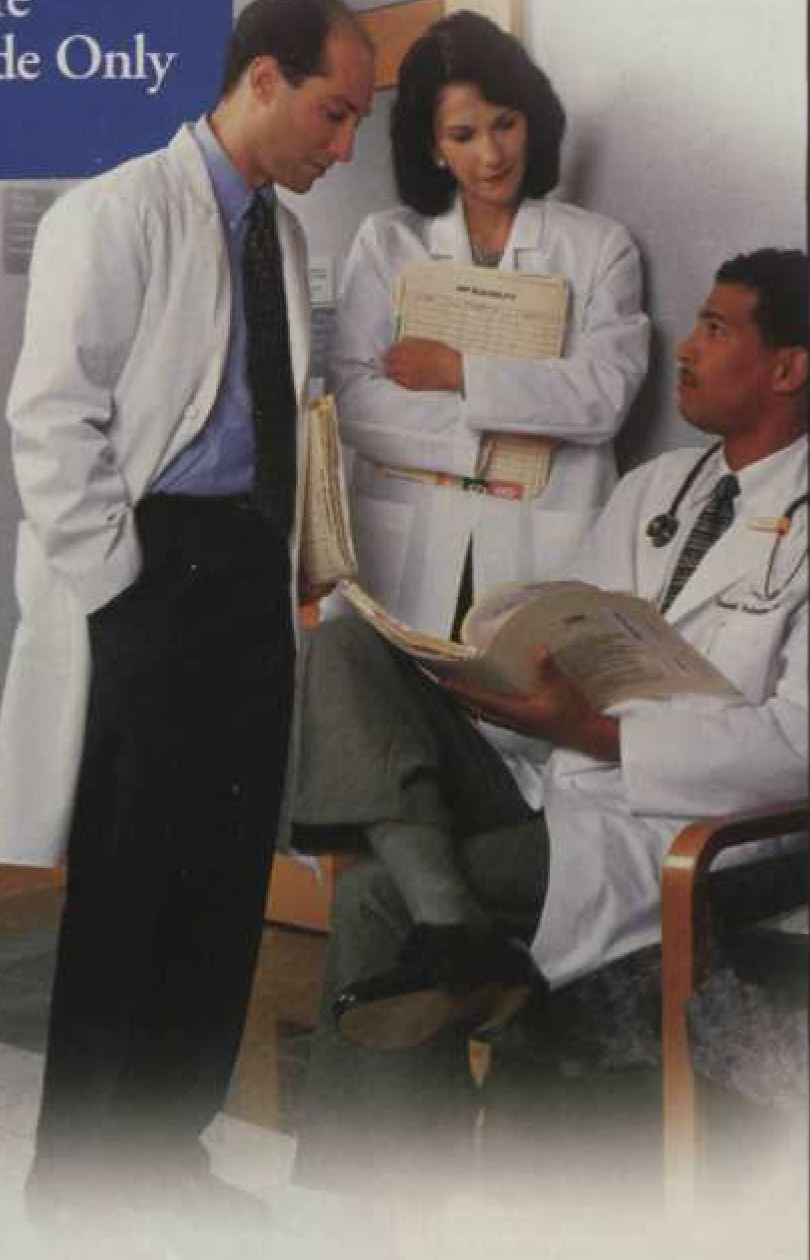

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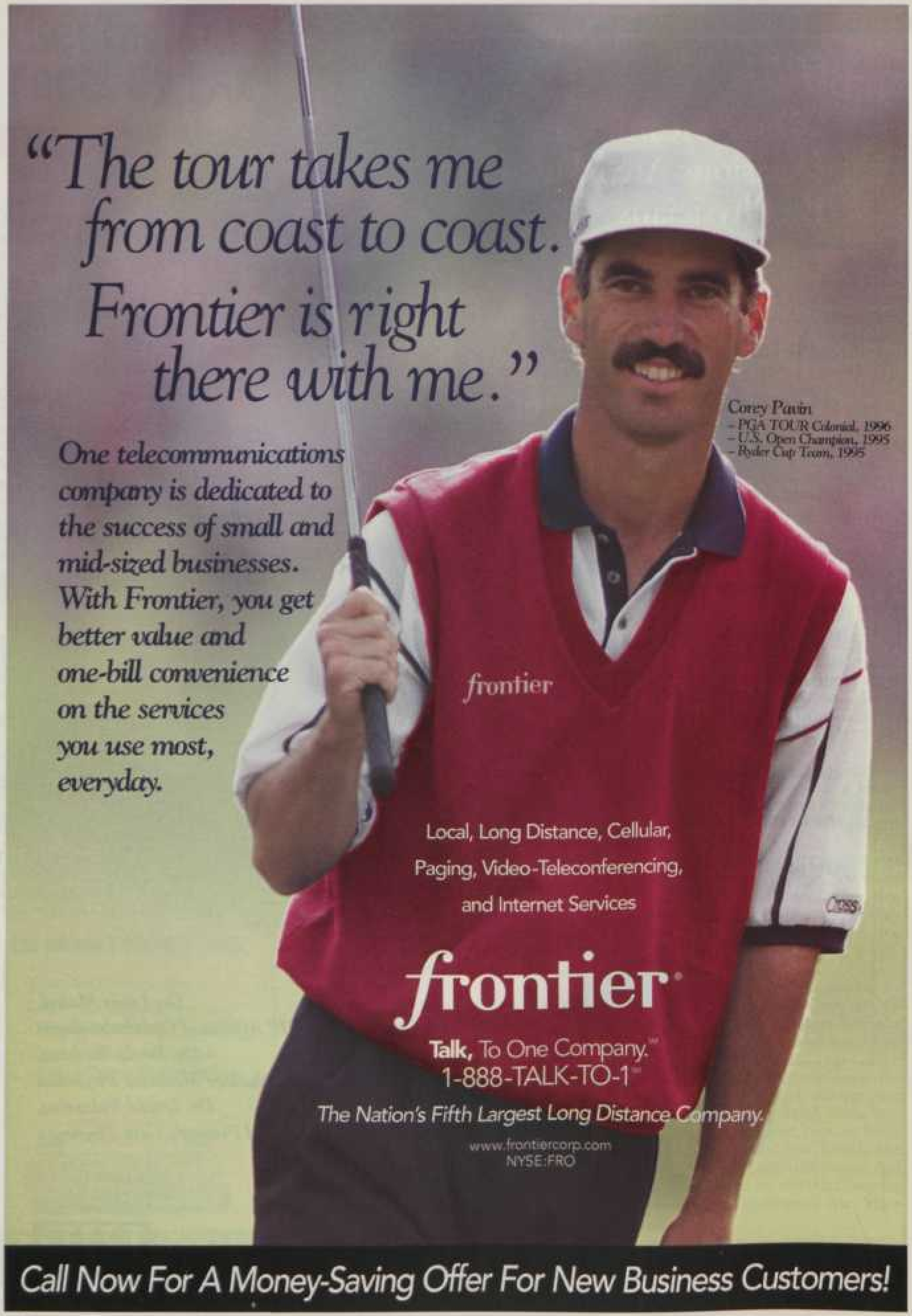
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LEGISLATION

Look For A More Pragmatic Congress

The Republicans are likely to take a more deliberate approach in pursuing legislation that would help business.

By David Warner

Two years ago, after capturing both the House and the Senate for the first time in 40 years, Republicans in Congress embarked on a sweeping legislative tour de force to dismantle or change a host of federal programs, regulations, and laws. House GOP members moved fast, voting within 100 days on all 10 points of their Contract With America. Business groups, many with legislative wish lists overlapping the GOP's, lined up in support of the Republicans.

But a budget stalemate with President Clinton in late 1995, a legislative bottleneck in the Senate for much of the congressional session, bad publicity about some of the GOP's initiatives, and a massive election-year counterattack by Democrats, organized labor, trial lawyers, and environmental groups have apparently tempered the manner in which Republicans will pursue their quest to end the "era of big government." Rather than pushing for major progress all at once in 1997, the approach is likely to be more incremental.

Republicans, after surviving a 1996 election that saw Clinton returned for a second term and their majority in the House shrink, are considering a slower, more pragmatic approach for their legislative agenda.

In the House, the Republicans' 227 seats give them a 19-seat margin. There will be eight fewer GOP representatives than there were in 1996. In the Senate, the Republicans' majority grew by two seats, to 55-45.

Many congressional observers believe that the re-election of Clinton, the election losses by House Republicans, and the power vested in the minority party in the Senate—where just one member can stop legislation by talking it to death with a filibuster, a technique prohibited in the House—will force the GOP to moderate its stances on some issues.

"I would expect for people to look for some areas of agreement," says Christopher H. Foreman Jr., senior fellow of governmental studies at the Brookings Institution, a public-policy research organization in Washington, D.C. "I see opportunities or places where the two parties can work together and bring something to the president's desk. But they're going to have to drop any provisions that can be demonized as extreme or that simply won't fly politically."

He expects the 105th Congress to resemble the final few months of the 104th, when Republicans, many Democrats, and Clinton agreed on major legislative initiatives such as welfare reform, a new Safe Drinking Water Act, and health-care reform.

Says Sen. Paul Coverdell, R-Ga.: "The [Republican] agenda is unchanged from the 104th Congress."

Coverdell, who as Republican Conference secretary helps set the Senate's legislative agenda, believes that the GOP's efforts in the previous Congress to balance the budget, reform the regulatory process, and enact other legislation designed to foster economic growth were endorsed by the voters in November.

PHOTO: LLEWELLYN—UNIPHOTO

Republicans in Congress *want a legislative solution to the funding problems of Medicare, the federal health-insurance program for the elderly.*

He notes the party's Senate gains and the small number of House Republican losses despite Clinton's 8-percentage-point victory over Republican challenger Bob Dole and a $35 million advertising campaign by organized labor against GOP House members.

"I don't think the [conservative] philosophy has softened," he says. "It's firmer, and the election ratified it. But managing the [legislative] objectives will be more seasoned," with GOP leaders drawing on lessons learned in the previous Congress.

For business, that probably means incremental amendments rather than wholesale reforms to laws and programs it has long sought to change.

"We expect that this Congress will consider legislation in a more deliberate, piece-

Rep. Gary A. Condit, D-Calif., a leader of a group of moderate-to-conservative House Democrats called the Blue Dogs, says the new Congress can pass many significant measures if lawmakers can find common ground. "We think that most of the solutions that can get a presidential signature and that the American people will accept are pretty mainstream, centrist solutions," he says. "We're going to push in that direction in a very respectful, quiet way.

"Both sides rhetorically are talking about moving toward the center, where we've been all along."

Although congressional Republicans, Democrats, and the president are talking about a spirit of cooperation, the GOP is not wavering from its objectives of making government less costly and less intrusive in the lives of Americans.

meal fashion," says Bruce Josten, senior vice president for membership policy at the U.S. Chamber of Commerce. "But make no mistake, the focus of the debate on issues from the budget to taxes to regulations shifted after the '94 elections and was reaffirmed in '96 to one that considers the business position. So the Chamber will continue to work with Congress to pass legislation that fosters economic growth, job creation, and entrepreneurship."

Here are some issues important to business that are expected to be tackled by the 105th Congress, which convenes Jan. 7:

The Federal Budget

Balancing the federal budget remains a top priority for lawmakers on both sides of the political aisle and for the president. The issue is the No. 1 priority for business, according to a recent U.S. Chamber survey of its 215,000 business members.

Action on a plan to balance the budget by 2002 is expected to occur early in the year. The president is required by law to submit a budget plan by the first Monday in February, and during the presidential campaign Clinton promised to present a balanced budget.

In the previous Congress, Republicans took the lead on the budget, but the plans they offered in late 1995 and early 1996 were vetoed by the president. GOP leaders have vowed to let Clinton lead the way on balancing the budget this time.

"Any time Clinton moves in the direction they want to go with respect to cutting government spending, I think that Republicans will swoop it up," says Stephen Moore, director of fiscal-policy studies at the Cato Institute, a public-policy research organization in Washington.

Republicans also will be looking to the president to make the first move to prevent the likely bankruptcy of Medicare—the federal health-insurance program for the elderly and the disabled—and Medicaid—the federal-state health program for the poor. Although there has been talk of establishing an independent, bipartisan commission to recommend ways to deal with the problem, Republicans seem to prefer a legislative solution, says Coverdell. He says a commission approach probably would delay implementation of a solution and also would be an abdication of Congress' and the president's responsibilities.

Taxes

Tax cuts should have a better chance of passing in the 105th Congress than they did in the 104th. Clinton campaigned in 1996 on giving middle-income earners a child tax credit and other targeted tax breaks, including a reduction in the capital-gains tax on the sale of homes. And Republicans, in their final budget plan in the last Congress, proposed tax cuts over six years of around $122 billion, most of which was for a $500-per-child tax credit.

Deciding how to pay for tax cuts could be contentious, though. The GOP had proposed reducing federal spending. Clinton's tax cuts would be offset by closing so-called loopholes in corporate taxes.

The sides may prove more conciliatory on cutting capital-gains taxes. Grover Norquist, president of Americans for Tax Reform, in Washington, believes the Republicans—who favor a broad cut in the rate—and Clinton will agree to cut the rate for gains on the sale of homes, small businesses, and farms. "But my recommendation to the Republicans," he says, "is if [Clinton] puts *any* capital-gains cut on the table, take it. Let's not wait for perfect."

GOP leaders in the House and the Senate also say they will push for expansion of individual retirement accounts to allow people to put more money into the tax-deferred savings plans, and they intend to press for reform of estate-tax rules to shield more of the value of family firms and individuals' estates from an inheritance tax that has a top rate of 55 percent.

While Republicans are expected to again introduce legislation to reform the federal tax code by moving to a flatter, simpler tax, significant action beyond congressional hearings is unlikely in 1997, say Norquist and other tax and budget authorities.

Regulation

Some of the more contentious congressional fights in the past two years were over efforts to update federal regulations, particularly environmental rules.

In this Congress, Republicans are expected to try a take-what-you-can-get-now approach to regulatory reform.

On the Clean Water Act, for example, rather than a comprehensive bill that addresses all of the clean-water issues under the existing statute, there are likely to be incremental reforms, says Charles Ingram, senior associate manager of environmental policy for the U.S. Chamber. "If we can get agreement on the provision dealing with storm-water runoff, for example, that could move as a separate bill," he says.

PHOTO: LLEWELLYN—UNIPHOTO

Revision of the laws *on clean water is likely to come in stages rather than in a comprehensive bill, environmental experts say.*

Congressional Republicans also will try to revive a regulatory-reform bill that includes provisions requiring federal agencies to weigh the costs and the benefits of rules and to assess the risks of the activity or process that is being regulated relative to other everyday risks.

Proposals to set regulatory budgets that federal agencies may not exceed, to protect private-property rights, and to reform wetlands rules also are expected to be offered.

Labor Law

Pro-business lawmakers will push hard to alter the nation's labor laws to deal with changing characteristics of the work force.

Topping the list of legislation likely to be

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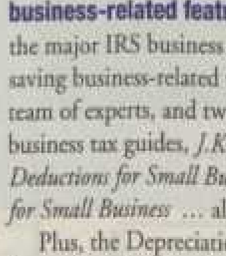

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considered in the 105th Congress is a measure to allow employees to take compensatory time off in lieu of overtime pay.

A comp-time bill was approved by the House in late July but did not come up for a vote in the Senate. The measure would have allowed employers to offer hourly workers time off at the rate of 1.5 hours for each hour worked over 40 in a week. Under current law, hourly workers must be paid time and a half for each hour worked over 40 in a week.

> "I don't think the [conservative] philosophy has softened. It's firmer, and the election ratified it."
>
> —Sen. Paul Coverdell, R-Ga.

Also expected to be resurrected from the last Congress is legislation to allow employers and workers to establish cooperative labor-and-management teams to discuss various workplace issues. The TEAM Act—Teamwork for Employees and Management Act—was approved by Congress but vetoed by Clinton.

The president has said he wants to expand the applicable circumstances of the Family and Medical Leave Act. It now lets workers at companies with 50 or more employees take up to 12 weeks of unpaid leave for the birth or adoption of a child or for their own or a dependent's illness.

Other labor-related issues that could see action in the coming Congress include overhaul of the Occupational Safety and Health Act; limits on legal immigrants, including business-sponsored foreign workers; and reform of the Fair Labor Standards Act, the federal law that governs workplace wages and hours.

Trade

The president and most Republicans are likely to agree on solutions for most trade issues. And despite opposition from some Democrats and Republicans and from organized labor, progress on several measures is likely, says Willard A. Workman, vice president/international for the U.S. Chamber.

Issues expected to come up include expansion to Central America and South America of the North American Free Trade Agreement—which now includes the United States, Mexico, and Canada—and extension of most-favored-nation (MFN) trade status for China. MFN status confers no special trade privileges; it is accorded by the president and is routinely granted to most of the nations with which the United States has trade ties.

China's MFN status comes up for renewal annually, and some lawmakers have sought to deny or restrict that status on grounds that China tolerates human-rights abuses. Other legislators, backed by the Chamber, are seeking to grant permanent MFN status to China.

Other Issues

The coming Congress is expected to take up a number of additional matters. They include efforts to reform campaign-finance laws, to consolidate federal education and training programs, and to deregulate the electric utility industry to encourage more competition among energy providers.

Lawmakers are also expected to consider further reforms in the nation's health-care system, including raising to 100 percent from 30 percent the deduction that the self-employed and unincorporated firms can claim for health-insurance costs.

The president has expressed support for additional government-mandated health provisions, such as one attached to an appropriations bill in 1996 that requires insurance plans to permit mothers and their newborns to remain in the hospital for at least 48 hours after a conventional delivery and at least 96 hours after a Caesarean section.

The president also has said he wants to "fix" provisions concerning food stamps and benefits to legal immigrants in the welfare-reform measure he signed into law in 1996. The new statute turns over to the states, through block grants, several key federal welfare programs. (See "In The Trenches Of Welfare Reform," Page 29.) GOP leaders in the House and the Senate are generally opposed to any changes in the new law.

Another product-liability reform effort also is expected. Clinton vetoed a bill that cleared the last Congress after lawmakers had worked on the issue for 12 years.

Whether lawmakers and the president can reach agreement on issues important to business will be tested early in the congressional session. V. Cheryl Womack, a member of the U.S. Chamber's board of directors and president of VCW Inc., a Kansas City, Mo., insurance agency, says there's a lot of bureaucracy built into the legislative system that may make it hard to get things done. "Still," she says, "I'm optimistic." NB

In The Trenches Of Welfare Reform

Now that the system has been changed radically, many people are looking to small business to create the jobs necessary for the effort to succeed.

By Bill Montague

The nation's 61-year-old welfare system is undergoing a total overhaul, and small-business owners are being asked to lend a hand by doing what they do best: create jobs.

Legislation passed by Congress and signed by President Clinton last summer abolished the federal Aid to Families with Dependent Children (AFDC) program, which provided open-ended cash payments to more than 4 million low-income families. Under the new system, recipients generally will have to find jobs within two years of first receiving benefits, and most will be unable to receive more than five years of future benefits in their lifetime.

The new federal law requires states to move at least 25 percent of their welfare recipients into jobs or short-term training programs by the end of 1997 and 50 percent by 2002.

The changes are controversial, with some critics arguing that the new program will cause widespread misery for poor families. Supporters say the reforms will help break a cycle of dependency that has kept generations of demoralized welfare recipients chained to government-run programs for the poor.

But both sides agree on one stark fact: Welfare reform will fail unless jobs are created for the millions of recipients—many of them young, single mothers with few skills and little work experience—who will be pushed into the labor market in coming years.

That's where small business comes in. Burdened by the budget deficit, the federal government is in no position to launch massive public-works programs. Many states and cities have their own fiscal problems. Some corporations are still cutting jobs in restructuring their companies to stay competitive. So welfare reformers are pinning their hopes on small companies, which already create most of the jobs in the United States.

"I challenge every business person in America who has ever complained about the failure of the welfare system to hire somebody off welfare and try hard," President Clinton said in a speech in Kansas City, Mo., in September. "I believe the business community's response will be overwhelming."

PHOTO: ©PATRICIA CORDELL

Small-business owners *have a responsibility to help bring welfare recipients into the work force, says Wayne Welch, owner of Oregon Photo Supply.*

He may be right. Clyde McQueen, president and CEO of the Full Employment Council, a Kansas City agency that places welfare recipients in jobs, says the council's switchboard was flooded with calls from local business people the day after Clinton's speech. "We received offers of 150 jobs on that one day," McQueen says.

That can-do spirit already is being shown by many small-business owners. Wayne Welch, owner of Oregon Photo Supply, a retail company in Tualatin, a Portland suburb, has been offering jobs to welfare recipients for the past two years under an experimental state program that gives wage subsidies to employers. Initially limited to six counties, the program recently went statewide. (The program, Jobs Plus, was profiled in "Welfare Reform Could Work," the August 1994 cover story.)

"I think as small-business men, or any kind of business men for that matter, we have the responsibility to do something," Welch says. "I think the fact that we can deal with people one-on-one gives us an edge over larger corporations in terms of helping bring these people into the work force," something Welch says he has had success with at his company.

But good intentions won't solve the problem, welfare experts say. While many welfare recipients are ready and eager to work, others carry the baggage of years of poverty and existence on the margins of society. Some lack even the most basic essential work habits, such as showing up on time. Child-care problems and family emergencies can be constant distractions.

"In the population we are talking about,

Bill Montague is a free-lance writer in Alexandria, Va.

many people have never had to get up and go to work every day," says Gary Stangler, Missouri's director of social services. "Many have never even known anyone who had to get up and go to work every day."

As a result, putting welfare recipients to work can be an expensive, time-consuming proposition for employers. For many small-business owners who are struggling to keep their operations going or to cope with the needs of a rapidly growing company, those costs can be too high.

Just ask Mary Flowers, president of Sturdy-Kwick Building Systems, a Pomona, Calif., manufacturer of prefabricated industrial structures. When Flowers started her company three years ago, she hired several welfare recipients under a state program designed to aid inner-city neighborhoods. The result was a failure, she says.

"Turnover was very, very high. When you are a small, growing company, you need to rely on each and every individual to be as productive as possible," Flowers says. "But we found that people who were not accustomed to being employed on a continual basis sometimes didn't have the kind of work ethic you need to succeed on the job."

Nonetheless, to help business owners alleviate some of the expense of hiring welfare recipients, the federal government and the states offer various financial incentives. They include:

PHOTO: ©CHUCK KNEYSE—BLACK STAR

Under a Missouri *welfare-to-work program, Tom Davidson, foreground, has hired welfare recipients—including, from top, Diane Rickard-Davis, Jacqueline Galloway, and Babette Bomar—to work at his document-storage company.*

■ **Tax credits.** When Congress raised the minimum wage last summer, it sugar-coated the pill for businesses by adding a variety of tax breaks. One, the Work Opportunity Tax Credit, allows employers to claim an income-tax credit equal to 35 percent of the first $6,000 in wages paid to new employees from seven targeted groups, including welfare recipients. At least five states—Connecticut, Georgia, Maryland, Massachusetts, and South Carolina—offer similar tax credits.

■ **Wage subsidies.** Federal rules already allowed states to divert all or part of a welfare recipient's monthly benefit check—and the cash value of what the person otherwise would receive in food stamps—to an employer for use in paying wages to the recipient. Such programs exist in at least 22 states and are likely to be created in several more.

■ **Enterprise zones.** Many states grant various tax breaks to companies that locate factories or offices in economically depressed areas. California, for example, has designated 35 areas for special treatment, including favorable depreciation schedules, preferences on state contracts, and a tax credit of up to 50 percent for wages paid to enterprise-zone residents who are on welfare.

Taking advantage of these programs, however, can require small-business owners to wrestle with a host of complicated rules. The new Work Opportunity Tax Credit, for example, is available to any employer, but it contains several provisions designed to make sure that business owners claim the credit only for newly created jobs, not existing ones.

Before offering a job to a potential employee, an employer must fill out and sign a federal tax form, Form 8850, stating that the person to be hired is eligible for the tax credit. The form, called a "prescreening notice," is also signed by the employee. It then must be filed with a designated agency—usually the local state welfare office or employment center—within 21 days of the employee's start date.

The tax credit cannot be claimed for wages paid to an employee unless he or she remains on the payroll for at least 180 days or completes 400 hours of work.

Generally, employees eligible for the federal credit include anyone who has received federal AFDC or food-stamp benefits for at least nine months. But special rules apply to former felons. Different rules also are used to calculate the tax credit for workers under 18 who are hired for summer jobs. To be eligible for the credit, workers must be hired after Sept. 30, 1996, and before Oct. 1, 1997, when the program is scheduled to expire.

One final catch: In calculating their federal tax credit, employers must subtract from the wages they have paid any wage subsidies from state or local governments if those subsidies were financed with federal welfare or food-stamp benefits.

State tax-credit programs have their own peculiarities. As with the federal program, most offer credits only for newly created jobs. Some provide credits only during the first year of employment; others phase the credits out over several years.

Some programs are tailored to promote specific goals, such as higher pay levels for welfare recipients. Georgia, for example, offers a sliding credit based on wages.

For employees who are paid at least $4 an hour above the federal minimum wage—currently $4.75 an hour and scheduled to rise to $5.15 an hour on Sept. 1—the

Georgia credit is 40 percent of the first $7,000 in wages each year. For those earning between $3 and $4 above minimum wage, the credit is 25 percent. For those earning less, it is 20 percent.

Some programs are so restrictive that they may be of little or no use to small business. Connecticut, for example, offers $1,500 "opportunity certificates" to welfare recipients, who then turn them over to their employers. The employers can redeem the certificates as credits against the state's corporate income tax. But the program is limited to Fairfield County, home to some of the state's richest corporate headquarters and some of its poorest cities. The credit can be taken only against the corporate tax; it does not help small-business partnerships or sole proprietorships.

Direct wage-subsidy programs have proved more attractive to the states than tax credits, in part because they can be financed out of federal welfare and food-stamp payments. Under the new welfare-reform law, states will have even more flexibility to use those funds to pay for welfare-to-work programs.

They also should have more money. From now until 2001, the reform law guarantees states at least as much in federal welfare payments as they received under the old AFDC program—even as their welfare caseloads decline.

In addition, states' subsidy arrangements are as varied as their tax-credit programs:

■ Wisconsin, considered a leader in welfare reform, will offer a flat subsidy of $300 a month to employers as part of its new reform plan, called W-2. A job's subsidy will be limited to three months but can be extended to six if the position appears likely to become a full-time, unsubsidized job.

■ Massachusetts' Full Employment Program combines wage subsidies and tax credits. The employer receives a wage subsidy of $3.50 an hour for the first nine months of employment and $2.50 an hour for the next three months. Of that amount, $1 is paid into an "individual asset account," which the employee can later use to pay for college tuition or other educational expenses. In the second year, employers can claim a $100-a-month tax credit.

■ Jobs Plus, the Oregon program, reimburses employers up to $4.75 an hour for wages paid to welfare recipients, plus the employer's share of Social Security and Medicare taxes. Like Massachusetts' program, Jobs Plus includes an educational set-aside fund.

After six months on the job, the employee must either be given a permanent, unsubsidized job or be allowed one day off a week to look for other work. After three more months under the second option, the employee must be given a job or let go.

Subsidies and tax credits alone may not be enough to make welfare reform work. Even the most generous financial incentives may not cover the costs involved in dealing with welfare employees, according to employers and welfare experts. "The tax credit we received wasn't nearly enough to compensate for the problems we encountered," says Sturdy-Kwick's Flowers.

Indeed, employers often regard subsidies and tax credits as stigmas to be avoided, says Dick Powers, a spokesman for the Massachusetts Department of Transitional Assistance. Although the state's Full Employment Program is authorized to fund up to 2,000 positions, only 178 welfare recipients have obtained jobs through the program since it began in November 1995. "Employers have the impression they are getting damaged goods" when welfare recipients are sent to them, says Powers.

Subsidies and credits also have a spotty record when it comes to keeping employees off welfare rolls. Missouri's 21st Century Program, which offers wage subsidies to employers in the Kansas City area, has found jobs for 599 welfare recipients since May 1995. But more than 60 percent have quit.

Missouri officials say they don't know how many ended up back on welfare. Nevertheless, they find the figures disturbing. "If we're going to place people in jobs but then see them cycle back onto welfare in just a couple of months, then we are going to have a problem," says Gary Stangler, the state's director of social services.

What else can be done to help employers contribute to welfare reform? Reforming the federal payroll taxes might be the most

Taking Part In Reform

How can small-business owners get involved in welfare reform? Most states have programs designed to match employers with eligible employees. Some offices to contact:

■ A city or county welfare office, which usually is run by the state's department of human services.

■ A local office of the state's employment division.

■ The local chamber of commerce.

■ A private-industry council. There are 640 such councils nationwide, each directed by a board of local business owners, union officials, and public officials. Each council is responsible for coordinating job-training programs in its area.

effective tool, some analysts say. Under current law, employers and employees split the cost of the 12.4 percent Social Security tax on the first $62,700 in wages ($65,400 beginning Jan. 1) and the 2.9 percent Medicare tax on all wages.

There's also an employer-paid 6.2 percent federal unemployment-insurance tax on the first $7,000 of wages.

Because the taxes for Social Security and unemployment insurance are not levied above certain income levels, from an employer's point of view it may be cheaper to hire one highly paid but highly productive worker to do the work of two lower-paid but less productive workers.

PHOTO: CHUCK EYE—BLACK STAR

Job offers poured in *after President Clinton called on business people to hire people off welfare, says Clyde McQueen, president and CEO of a Kansas City, Mo., job-placement organization.*

That creates a bias against low-wage, low-skill jobs—the only kind of jobs that many welfare recipients are qualified to fill.

"If we want to do something big, we need to think about reforming the tax structure," says Bob Lermand, a welfare analyst at the Urban Institute, a Washington, D.C., public-policy research group. His proposal: Apply the payroll taxes to higher income levels but reduce the tax rates.

Shifting from a tax structure that penalizes savings and investment—as the federal income tax does—to one that taxes consumption might also boost job creation, Lermand says.

Federal policy-makers say they will be looking at those and other issues after the new Congress convenes in January. "The federal government created this problem through 60 years of misguided welfare policies," says Rep. Clay Shaw, R-Fla., chairman of the House Ways and Means Subcommittee on Human Resources and a leader in the welfare-reform drive. "We have a responsibility to correct the problem." NB

Accentuating The Positive

It's every employer's worst nightmare: You give someone a break and a job but quickly find yourself dealing with a surly troublemaker—or worse, a thief or a drug abuser.

Those kinds of problems can crop up in any hiring decision. But to employers who want to help welfare recipients move into the world of work, the risks may seem particularly high.

In fact, though, they may not be as high as they seem. Many, if not most, welfare recipients are willing and eager to put in a full day's work for a full day's pay, say business owners experienced in hiring them.

"You get good people and bad people," says Tom Davidson, president of Davidson Archives, a Kansas City, Mo., document-storage company that has hired 12 welfare recipients under a state welfare-to-work program. "I wouldn't say our experience with them has been any different than with the regular work force."

More Background Information

In fact, employers who hire welfare recipients through a welfare-to-work program may be able to find out more about the applicants referred to them than they would about a job applicant who walked in off the street. Missouri's 21st Century program, for example, provides both routine screening—employment history, educational background, criminal records—and drug testing if the employer requests it.

"I'd say maybe 30 percent of the companies we work with ask for [the drug testing]," says Clyde McQueen, president and CEO of the Full Employment Council, a Kansas City job agency that administers the 21st Century program. "But most of the people we place are in entry-level jobs, and most employers don't seem to think it's necessary."

Training For The Basics

Another plus for employers is that most welfare-to-work programs include pre-employment training, in which applicants are instructed in the basics of holding a job. These include how to dress, how to behave in an office or a factory, and how to deal with supervisors and co-workers. Some programs also provide vocational-aptitude testing and training in specific skills.

In addition, most programs operate more or less like an employment agency: They make the referrals, but the employer has the final say on who gets hired.

Taking the time to sit down with an applicant for a thorough interview can make all the difference in avoiding problem employees, says Wayne Welch, owner of Oregon Photo Supply, a Portland-area company that also participates in a state welfare-to-work program. "I am a little more cautious when I'm dealing with people from the program," he says. "They have to be able to look me in the eye and deal with me face to face."

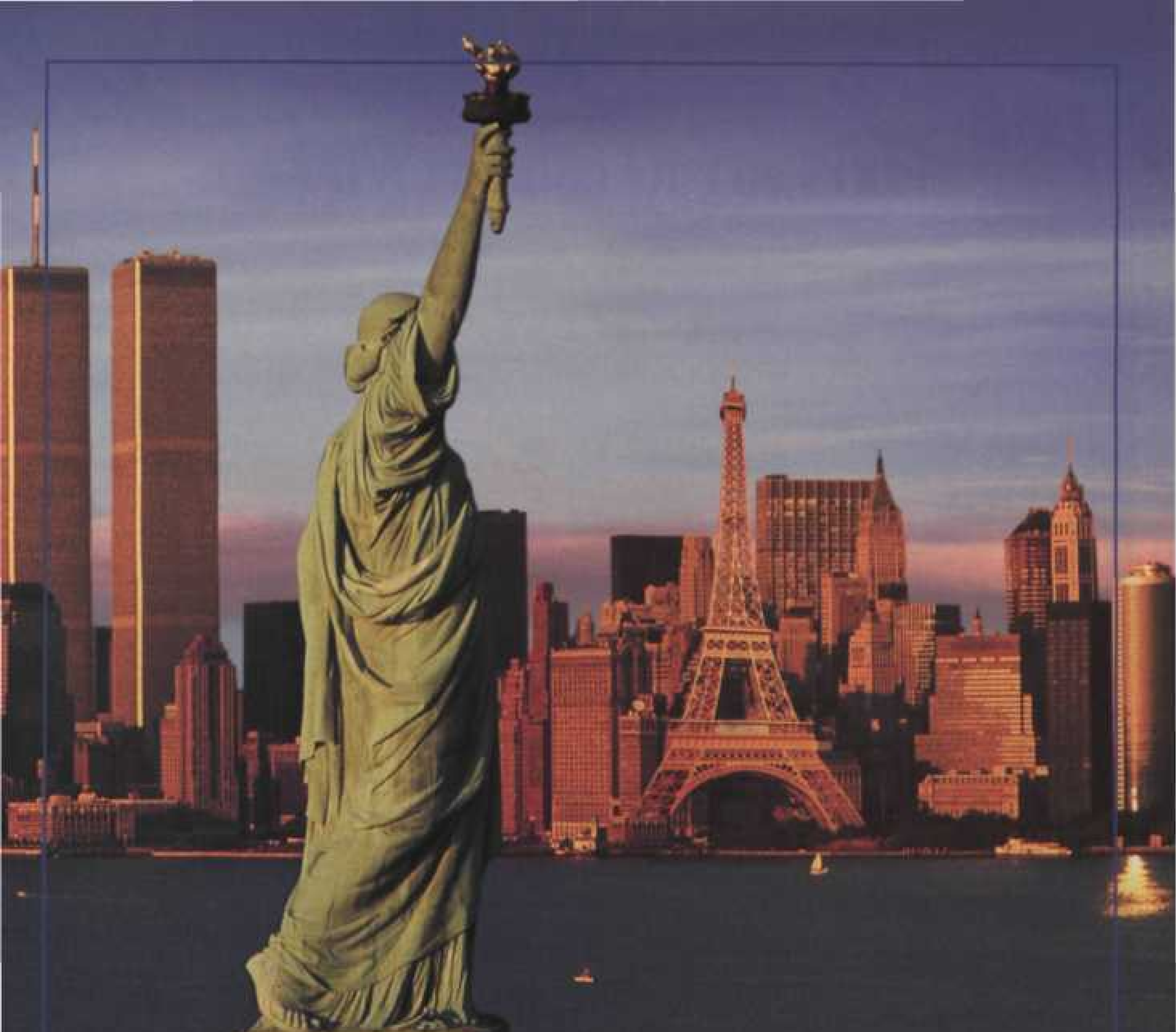
When problems do arise on the job, employers usually have someone to turn to for help. Most welfare-to-work programs assign each participant a caseworker who can help handle family emergencies or intervene in a dispute with an employer.

"We send a person every week to the work site, just to make sure everything is OK," says Peter Cove, president of America Works, a private company that places welfare recipients in jobs in New York City, Albany, N.Y., and Indianapolis. "That kind of intervention is the key to making our program work."

An Attitudinal Shift

Most welfare-to-work programs are willing to provide detailed information about the people they refer—even if some of that information is negative—but state officials say they hope employers won't place too much emphasis on fears or suspicions.

"We want to focus on the positive," says Jean Rodgers, director of the Division of Economic Support of the Wisconsin Department of Health and Social Services. "We have a 60-year-old system that is built on people's negative attitudes about welfare recipients. That's what we want to move away from. If we put in a system that zeros in on past negatives, the culture is not going to change."



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Free-Spirited Enterprise

By Michael Barrier

Family Attachments

You know those stories that show up over and over again when the media turn their attention to a small entrepreneurial company, the ones that tell how the company came to life through a happy accident. In the case of Leeko Industries, a little company in New York City, the accident was real, and it wasn't happy.

Liz Hirtenstein's husband, Andy, an insurance executive, had a nearly fatal car accident in March 1994, when their children were very small. Their son, Matthew, was 4, and their daughter, Jessie, was only 9 months old. "My life was turned completely upside down," Liz Hirtenstein says. Andy was not able to return to work part time until September, and after six months or so of constant crisis, Liz was frazzled, to say the least.

At that point, she says, "Mom decided I needed something to focus my life on other than hospitals" and all the complications that had followed the accident. "One day she just said to me, 'Let's do it.' I said, 'Let's do what?' She said, 'Sticky.' It never occurred to me why she said it when she did. It was a great outlet for me."

"Sticky" was Sticky Situations. That's the umbrella name for three "scenarios" that come in boxes titled "Tell me about tomorrow," "My Mommy's having a baby," and "When are you coming home?"

Each box contains a laminated board divided into four time periods (morning, afternoon, evening, and bedtime); sheets of removable stickers representing a wide variety of children's activities, everything from a school bus to a baseball bat to a videocassette; and sheets of blank sticker figures that can be modified to represent family members.

Think of Sticky Situations as a sort of Franklin Planner or Day Runner for kids who can't read yet, or maybe are just learning (Hirtenstein puts the age range at 3 to 8). The idea is that parent and child will sit down together and plan the child's day, using the stickers to represent the activities and the people in the child's life.

Hirtenstein came up with Sticky Situations when she was pregnant with Jessie; she put together a homemade version of "My Mommy's having a baby" to ease Matthew's anxiety about what was going to happen when she went to the hospital. After Jessie was born, the scenario shifted to the normal schedule reflected in the title "Tell me about tomorrow."

The "Mom" who transformed Sticky Situations from a charming idea into a real business was Hirtenstein's own mother, Jan Kirshner, who owns a New York City public-relations firm, H/K Communications. (The Leeko Industries name comes from Hirtenstein's childhood nickname.) Kirshner puts her total investment so far at around $250,000. The first Sticky Situations boxes reached store shelves in November 1995, a little over a year after Kirshner started the ball rolling.

Right away, Sticky Situations got into 347 Toys R Us stores. But during the Christmas rush, "we got lost in the shuffle," Kirshner says. Publicity—Leeko has yet to do any advertising—generated demand for the product, but customers couldn't find it. Ultimately, Kirshner says, "we failed."

Toys R Us decided to try a second test for Christmas 1996, carrying all three scenarios in a smaller number of stores—and shelving them not with games, as in 1995, but with educational products. The suggested retail price has come down, too, from $12.95 to $7.95.

There is, of course, no guarantee that Sticky Situations will emerge in early 1997 any better off than it was a year before. "It may be that mass market is not right for this," Kirshner says. Sticky Situations is also available through "a bunch of independents all over the country," Hirtenstein says, as well as through a toll-free number: 1-800-938-1915. There's a shipping-and-handling charge of $1.50 on orders under $10 and of $2.50 on orders over $10.

Even though Kirshner and Hirtenstein have protected themselves in every way they can, through trademarks and copyrights, the idea behind the product is still open to copying by much larger companies.

"We figured we had a year's window before we were knocked off," Hirtenstein says. But so far it hasn't happened. "There's been a ton of stuff with stickers out there—jobs charts and calendars and more stuff than you can imagine—but nobody has picked up on the emotional side yet," she says. "There's no interaction with the parents."

After all, a lot of parents prefer to hand their kids a videocassette or a CD-ROM and let them entertain themselves while Mom and Dad do something else. "Some people have said, 'I don't want to do this with my kid. I'll just give it to them,'" Hirtenstein says. "That's not what this is about. It's a parent-child interactive activity."

Because it's rooted in family experience, Leeko may have more staying power than some firms rooted only in the desire to make money. "Mom doesn't believe in things not working," Hirtenstein says. "One way or another—whether we end up selling the rights, or something else—we're going to be OK." NB

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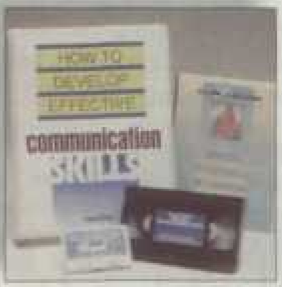

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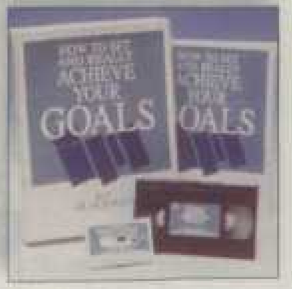

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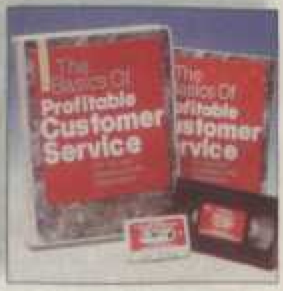

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RETAILING

The Minefield Of Merchant Status

Here's how small firms can negotiate the tricky territory of getting approval to accept payment by credit card.

By Frances Cerra Whittelsey

Lauren Brockway decided to take the risk and go full-time into psychic reading. She quit her job as an outpatient assistant in a dental clinic, went to sales-and-marketing classes offered by local business groups in St. Paul, Minn., and placed ads in national magazines.

As calls for her services started coming in, Brockway realized she had overlooked one essential: obtaining merchant status, or approval to accept credit cards as payment for goods and services.

She had read that home-based businesses, or any start-up businesses that want to take credit-card charges without obtaining a signature, are considered bad risks by credit-card issuers. Thus, she says, she was "really excited" when a sales representative for a company providing credit-card services told her he could get bank approval for her tarot- and psychic-readings business, River of Stars, to accept credit-card payments.

She says she was told that all she had to do was pay the sales rep a $100 application fee and $150 as the first installment on a lease for the equipment—a computer terminal and printer—that she would need to process card payments.

But after "waiting and waiting" for the promised result, Brockway eventually got bad news. The sales rep told her that the bank that would handle her credit-card charges considered her too risky and wanted a much higher application fee. It also required that she pay a "discount" rate of 9 percent on sales—meaning the bank would charge a 9 percent service fee for processing each charge rather than the usual 2 to 3 percent. When Brockway protested and demanded her money back from the sales agent, he refused.

Brockway thus became one of many entrepreneurs who enter an unfamiliar and often troubling world when they attempt to gain approval to accept credit cards from customers and clients.

The Problem For Small Firms

It used to be a very different world. Entrepreneurs seeking the privilege of accepting bank credit cards used to turn immediately to a local bank. But many banks have quit the business of merchant credit-card service in recent years, sharply narrowing that option.

From giants like Chase Manhattan to regionals like Marine Midland, based in Buffalo, N.Y., many banks have found it more advantageous to sell those operations to a handful of large, nonbank processing companies.

A small number of these companies now dominate the market for approving merchants to accept credit-card transactions. Chief among them are First Data Corp., based in Hackensack, N.J., and National Data Corp., based in Atlanta.

Why are businesses that don't sell face to face considered risky? Steven Citarella, First Data's vice president for credit policy, explains that the biggest reason is that the merchant is getting paid before delivering a product. If the merchant has financial difficulty, the goods or services may never be delivered, but the payment has already been transferred to the merchant's account.

Moreover, under federal consumer-protection laws, a buyer who has not received the goods is allowed to refuse to pay the credit-card charge.

A consumer also has up to 60 days after the mailing of the first bill for a particular purchase to inform the credit-card company that he or she is not satisfied with that purchase and wants to withhold payment.

In addition, unscrupulous merchants who do not get actual signatures on transaction statements can more easily send through bogus or duplicate charges or engage in other kinds of fraud.

Citarella says that First Data does not automatically reject home-based businesses but looks at each applicant individually. He acknowledges, however, that First Data's direct-sales representatives will turn down any mail-order type of company—including firms that sell by

PHOTO: STEVE WOIT

Seeking approval *to accept credit-card payments led to a round of bad fortune for Lauren Brockway and her psychic-reading business, in the Minneapolis suburb of Savage.*

Frances Cerra Whittelsey is a free-lance writer in Huntington Bay, N.Y.

phone or via the Internet—that has not been in business for at least three years and cannot produce financial statements for the past two years. Entrepreneurs starting storefront businesses will generally be granted merchant status more easily.

Industry executives acknowledge that such restrictions are typical among the nonbank processors of credit-card transactions. As a result, people starting home-based, telephone, or Internet businesses are often rejected on the spot, without any inquiry into their personal credit history or any opportunity to provide a personal guarantee or collateral.

Enter The ISOs

That situation has created a niche for small, regional banks that still do their own merchant credit-card processing. These banks typically use independent sales organizations (ISOs) to aggressively seek out businesses and to deliver them to the bank as new customers.

ISOs usually advertise in the Yellow Pages and in business magazines' classified sections, often stating that they—unlike the stricter, big nonbank processing companies—can secure approval for virtually any business.

Entrepreneurs, industry insiders, and Better Business Bureau directors say that on the one hand, the ISOs and small banks they represent are providing a needed service. On the other hand, business owners need to exercise caution before signing a contract with an ISO. Hazards include:

■ Losing application fees to salespeople who never deliver as promised. Brockway eventually got her money back, but not everyone who wants to back out of a deal is so lucky. She had to trace the salesman's company back to the bank that would have granted merchant status, the Bank of the Redwoods, in Santa Rosa, Calif., and then complain to the Los Angeles Better Business Bureau, which helped her get her refund.

■ Being charged unexpected extra monthly fees and a percentage of each sale that is much higher than the normal 2 or 3 percent. Consider Dorrie Jones, owner of the DJ Boutique, in the Bronx, in New York City. She was surprised to find that she had a $7.50 monthly charge on her statement for a "Merchant Club" membership on top of her monthly lease fee and per-transaction charges.

■ And, most common of all, being charged $1,000 or more to purchase credit-card-processing equipment, or as much as $3,000 over the term of a multiyear lease. The equipment should cost no more than $500 to $600, including setup and programming fees, according to industry experts.

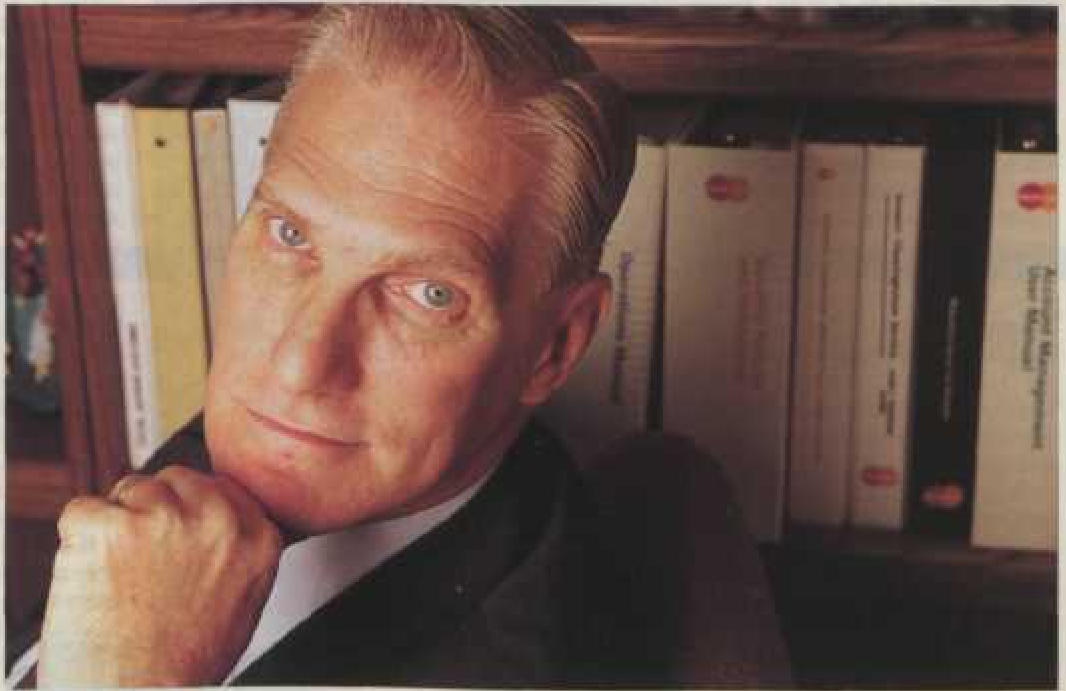


PHOTO: T. TODD BUCHANAN

Being overcharged *for the equipment needed to process credit-card transactions is a big problem for a number of merchants, says bank executive Craig Millington.*

Paying For The Equipment

"The biggest problem is the people who really gouge on the equipment," says Craig Millington, senior vice president of Bridgeview Bank and Trust Co., in Bridgeview, Ill. "I would say 60 percent of the [merchant sign-up] transactions involve gross overcharging."

Millington used to be in charge of merchant services for New York City-based Chemical Bank—which no longer offers those services—and for NatWest, which recently merged with Providence, R.I.-based Fleet Bank, which also does not seek such business.

Biff Mathews, owner of the Supply Depot, a Heath, Ohio, company that sells and services equipment for processing credit-card transactions, says that a basic terminal, such as the commonly used Verifone 330, has a manufacturer's suggested list price of $277 new. For a Verifone 380, which provides address verification—a necessity for mail-order businesses—the price is $327. A printer that produces a transaction receipt could add $250 to the total.

Those prices are far lower than what many merchants have been charged by ISO sales representatives, who often won't take an application for merchant status without making a deal for the equipment.

One merchant says he thought he had done well when he bargained the salesperson down from an initial price of $1,600 to $1,200. The merchant, who asked that his name not be used, sells jewelry over the World Wide Web from his home in a suburb of New York City.

Robert Wetzel, owner of Raised Images Printing, a Dallas company that takes orders for its printing services by fax or phone, paid an ISO representative $150 to apply for merchant status, was turned down, and never got his money back despite a complaint to the local Better Business Bureau.

He later got approval through another company, "but I had to pay a high price—$48 a month on a four-year lease for equipment you can get for $600. But what can you do if you can't get someone to process your transactions?" He says the company refused to let him buy the equipment, insisting on a lease.

Policing The Practices

Ken Bowman, executive director of the Electronic Transactions Association, a Kansas City, Mo.-based trade association

for the credit-card-transaction processing and services industry, says the problem of merchants being overcharged is "a lot better today than it used to be." The association was set up in 1990 to help cut down on overcharging and bogus fees by educating and certifying independent sales organizations and creating an industry ethics committee.

Bowman says that about 200 ISOs are certified and about 250 are registered as sellers with Visa or MasterCard International.

Paul Green, publisher of *The Green Sheet*, a newsletter for the bank-card-services industry, says there actually are thousands of independent organizations selling card services to merchants on behalf of the ISOs that are registered, a tiered arrangement that he says violates rules created by Visa and MasterCard to control abuses.

"One of the problems is that merchants are forced by society to give people credit, and they get panicky that if they can't take credit cards their business isn't going to make it," he says. "So then they make a pact with the devil and don't do their due diligence before signing."

Some banks make an effort to police ISO practices. Millington, of Bridgeview Bank, says his institution is "very strict" with ISOs. "If they are gouging on the price of the equipment, we tell them to reduce their prices or we won't continue to work with them."

Millington's bank, which has a portfolio of 12,000 small businesses in its merchant-banking operation, also is on guard against bogus credit-card transactions. "We have set up very good fraud controls," which require holding the merchant's payments for three days instead of the usual two, while computerized systems look for patterns of fraud, he says.

It Was In The Cards

Despite Brockway's troubles, the story has a happy ending for her and her firm, which is based in Savage, Minn., a suburb of Minneapolis. She found a sympathetic officer at a local bank that was still in the merchant-banking business, and she was granted merchant status, although she did have to leave a $500 security deposit.

Nonetheless, she says she is very content with the arrangement. After all, her 2.46 percent transaction fee is far below the 9 percent she was quoted at the outset by another bank. NB

Tips On Securing Merchant Status

While start-up businesses without an actual storefront have the most trouble obtaining approval to take bank credit cards, new businesses with storefronts and even existing businesses should be cautious when establishing merchant status or changing their terminal equipment or processing company.

Consumer-protection laws, as their name implies, were not written to protect merchants. A consumer with a problem about a credit-card purchase, for example, can complain to the Federal Trade Commission, but the FTC does not handle complaints about dealings between merchants and banks or card-processing organizations.

So before you sign anything related to establishing merchant status, you may want to follow these suggestions, which were drawn from industry insiders and experienced business people:

■ First, make the rounds of your local banks. Even though many banks no longer are in the merchant-banking business, some still are. Your reputation in the community, history with the bank, or other relationships may help you in establishing status or getting a better deal. Don't be surprised if you are asked to leave a sum of money on deposit with the bank as security.

■ If no local bank can help and you must deal with independent sales organizations (ISOs) to get Visa and MasterCard approval, check out several ISOs. Compare application fees, monthly lease rates, purchase prices for terminal equipment, transaction fees, and other charges.

■ Don't sign anything on the spot. Ask to keep the agreement overnight. If the sales representative refuses, show him the door.

■ Do not deal with any sales representative who insists that you sign an equipment lease before you know whether your application has been approved. Don't rely on spoken assurances that the lease won't be binding if you are rejected for merchant status.

■ Visa and MasterCard rules require that the application must contain the name of the bank that will be processing your transactions. Call that bank's credit-card department. Describe your business, and ask about application procedures and transaction fees. In addition, ask for the names of merchants who can act as references for the bank.

■ For a home-based business or one in which orders will be placed by mail, telephone, or the Internet, expect to pay a service fee of 3 to 4 percent on everything you sell, although lower rates sometimes can be found. Bridgeview Bank and Trust Co., of Bridgeview, Ill., offers a 1.6 percent rate. However, the bank holds your payments for one extra day beyond the typical two-day holding period.

■ Don't pay more than $500 for a basic terminal for your transactions, and don't buy a special printer unless you really need one—for instance, to include copies of transaction statements with merchandise you are sending. Rentals under $20 a month may be available. If you lease, you should insist on complete information such as the annual percentage rate used to calculate the lease payments and whether you will own the equipment at the end of the term.

■ If possible, have an attorney look over the application as well as the lease agreement.

■ Try calling American Express Co. (1-800-528-5200) to see if it will approve your business for merchant status. If you have a personal American Express card, you might be approved almost immediately. American Express will direct you to a company that will sell you terminal equipment for under $600, or it will rent you basic equipment for as little as $20 a month.

■ Before you sign an agreement, make sure the independent sales organization is a member of the Electronic Transactions Association; call 1-800-695-5509.

■ If you feel you have been cheated, contact the association. It can give you the name and phone number of a top executive in the home office of the sales company involved. In addition, you can complain to the bank whose name is supposed to appear on the merchant-status application, to your local Better Business Bureau, and to your state attorney general.

SMALL BUSINESS TECHNOLOGY

Taking Account Of Software

A wide range of highly effective programs is available to help business owners manage their finances in-house.

By Tim McCollum

Things get pretty hot at Kettler Casting when the big machines in the Belleville, Ill., foundry are pouring molten iron into molds to form machine parts, fire hydrants, and myriad other products. It's much cooler in the office, where office manager Mark Kettler and his staff use very different machines—personal computers—to pore over the company's books.

In managing the finances of the family-owned iron-products manufacturing company, Kettler and two employees use PCs and a newly released accounting software program called MICA IV 3.00, from MICA Accounting Software Inc., in Port Arthur, Texas. Kettler says the software makes it easy to accomplish general accounting tasks such as tracking receivables, preparing payroll, and maintaining the company's general ledger.

"The way we figured it, without the computer system and MICA, we would have to have two more people in the office to handle all the book work that comes through here," says Kettler, the son of the company's president, Gregg Kettler.

The firm switched to the MICA software in 1987 on the advice of the company's accountant, following a brief experiment with an off-the-shelf accounting program that Kettler says was inadequate.

MICA IV was more expensive than the mass-market software—about $1,000 for each accounting function, compared with $200 or less for all-purpose software available from retailers. But Kettler says the additional expense was worth it because MICA is better suited to Kettler Casting's business—made-to-order castings for a variety of customers.

Moreover, because the software resides on the server that's at the center of the company's network of PCs, it can be used simultaneously by a number of employees.

In addition, the software makes it easier for the company's outside CPA to prepare financial reports and tax returns. "Our CPA loves it," Kettler says. "He comes in, and he's in and out of here in two days. All of the information is at his fingertips."

Saving Time And Money

As evidenced by Kettler Casting, accounting programs have become vital tools at most small businesses. The programs save money for entrepreneurs by enabling them to do their bookkeeping in-house. And the software helps those entrepreneurs better manage their finances and spend more time on developing their businesses, says Tawn Allen Rose, editor and publisher of *The CPA Software News*, a monthly trade journal that reviews new accounting software.

Rose also notes that the programs are becoming increasingly "easier to use and more useful. They provide you with more information than you had before."

More than 500 accounting packages are currently on the market, Rose says. He attributes the large number of programs to the demand for specialized software for specific businesses such as manufacturers, doctors' offices, insurance companies, and merchants. This potpourri of software can be sorted into two categories: basic, off-the-shelf programs and advanced, customized accounting systems.

Basic programs combine most common accounting functions into a single package. They're usually available in retail stores or directly from the manufacturer, and they generally cost less than $200.

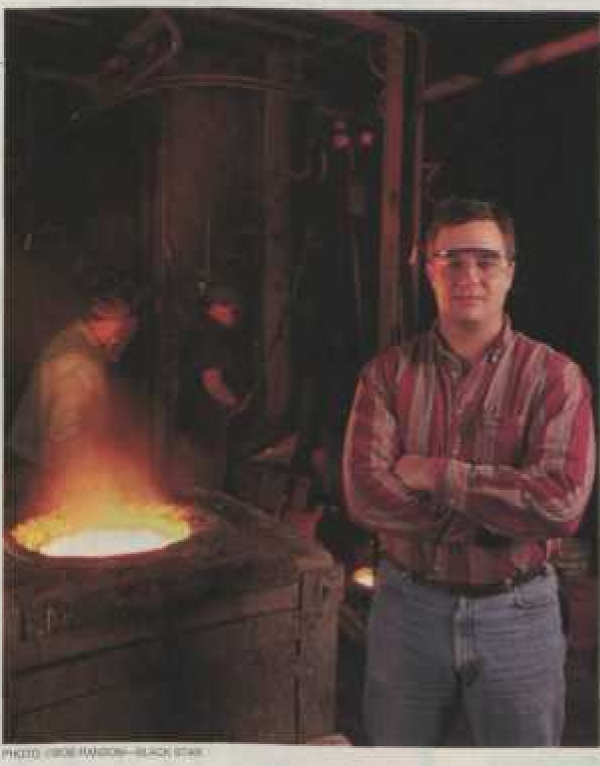


PHOTO: ©BOB RANSOM—BLACK STAR

Molten iron *is central to the processes at Kettler Casting, and so is the firm's accounting software, says Mark Kettler, office manager.*

Higher-end accounting systems are made up of interconnecting programs called modules. The modules, which perform various functions, enable companies to build systems with the specific capabilities they need.

Most higher-end systems work over company computer networks, and because of their complexity they are usually sold, installed, and maintained by accounting firms, consultants, or software resellers. The software alone can cost $1,000 or more per module, plus charges for installation and customization.

Affordable Alternatives

This relatively high cost is one reason why off-the-shelf programs have become popular among small businesses. Examples of such programs include the Peachtree Accounting line, from Peachtree Software Inc., in Atlanta; QuickBooks, from Intuit Inc., in Menlo Park, Calif.; and Simply Accounting, from Accpac International, in Santa Clara, Calif.

These programs make it affordable and relatively easy for most small-business people to do their own accounting. Even accounting professionals such as Dan Glidden, owner of Lisbon Bookkeeping Services, in Lisbon Falls, Maine, recommend the programs to many of their small-business clients.

"They can just key in their data and bring them in when it's time to do their taxes," Glidden says. "It saves them money if they do it on their own."

Glidden uses Peachtree Complete—the most advanced product in the Peachtree Accounting line—to do his clients' books and those of his own small firm. For six years he used the company's product that ran on the DOS operating system, but he recently switched to a Windows version,

Finding The Right Accounting Package

Accounting software isn't a one-size-fits-all product.

The low-cost software that's available in retail stores will not have enough power for some small businesses, and the more robust and higher-priced accounting systems that are available from resellers and consultants may be overkill for other companies.

Below are some of the leading small-business accounting packages of varying capabilities and prices.

Basic

One-Write Plus, Peachtree Software Inc., 1-800-228-0068: This is essentially an electronic version of the traditional "one-write" accounting ledger book used by many small companies.

Users enter payments and receipts in the appropriate column just as they would on a paper ledger, and the software calculates balances and produces reports. New features include the ability to track jobs and manage payroll. The retail price is $69.95.

Profit, Great Plains Software Inc., 1-800-926-8962: Profit is designed for growing businesses seeking both ease of use and accounting sophistication.

The ease of use is delivered through a "setup wizard" that walks users through the process of constructing electronic accounting records and creating customized forms such as checks, invoices, and purchase orders. The retail price is $79.

Quicken, Intuit Inc., 1-800-544-1356: Though intended primarily for managing personal finances, Quicken has been embraced by many owners of home-based or other very small businesses.

Quicken's hallmark is its ease of use and its ability to accomplish banking and bill-paying chores via a modem link to Intuit or to a local bank.

In addition, with a modem, users can access Intuit's site on the World Wide Web—*http://www.intuit.com*—which contains financial news, information, and Internet links. Quicken retails for $24.95.

Simply Accounting, Accpac International, 1-800-773-5445: Simply Accounting for Windows is designed for home-based and other very small businesses. Users keep track of finances in "journals," which handle basic bookkeeping functions such as payments, bills, inventory, and job costs. The program also lets users export information to spreadsheets and word-processing programs. The retail price is $89.

Intermediate

DacEasy Accounting & Payroll, DacEasy Inc., 1-800-322-3279: DacEasy for Windows 95 makes powerful small-business accounting features easy to use. New features include payroll capability, a report designer, and customizable invoices.

"Wizards" and flashcards appear on the screen to guide users through setting up the software in accordance with their business needs, to explain accounting terms, and to provide assistance. DacEasy retails for $149.95.

ILLUSTRATION: GEORGIA LEIGH MCDONALD

Peachtree Complete Accounting, Peachtree Software Inc., 1-800-228-0068: This is a Windows-based program intended for small businesses that have outgrown the basic accounting packages but still want the convenience and affordability of an off-the-shelf program.

Functions such as general ledger and sales, purchase order, and inventory have been rolled into one program that's accessible through an easy-to-use graphical interface and handy "smart guides" that explain accounting terms. The retail price is $199.

QuickBooks Pro, Intuit Inc., 1-800-544-1356: This package has recently added features that enable a user to perform banking functions and pay bills via a modem link to Intuit or the user's bank.

Ease of use remains a strong suit; the setup process lets you customize the software for your type of business.

QuickBooks Pro includes an "accountant's review" function that makes it easy for companies to prepare forms and data and then transfer them to their accountant. QuickBooks Pro is available for Windows or Macintosh for a retail price of $199.

Advanced

M*A*S 90, State of the Art Inc., 1-800-854-3415: M*A*S 90 for Windows is for growing businesses that have complex accounting needs. Its 11 modules cover accounting functions from general ledger to inventory control, and the system is compatible with M*A*S 90 DOS modules that handle functions such as point-of-sale tracking and merchandise bar-coding.

The price of the core Library Master module starts at $599 for one user; individual accounting modules start at $1,149 each.

MICA IV, MICA Accounting Software Inc., 1-800-448-6422: The latest version of MICA IV provides an array of small-business accounting modules, plus a new "drill-down" query capability that helps business owners get faster access to their company's financial information.

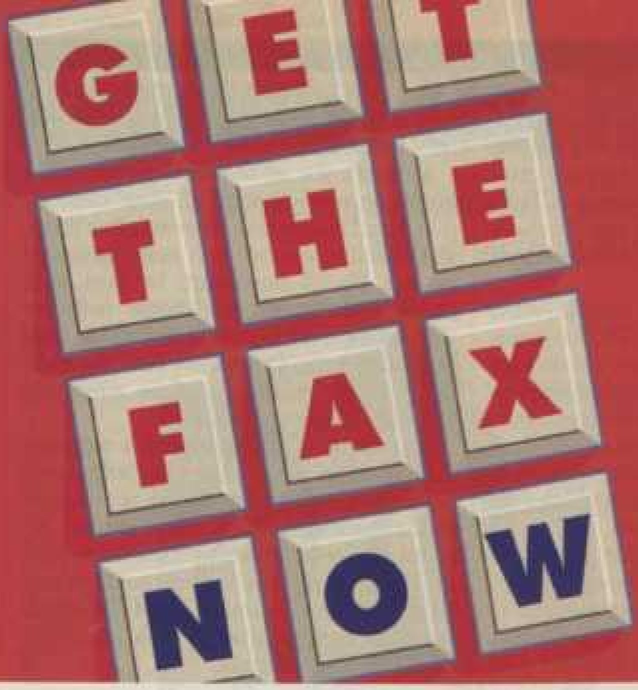
Available modules include inventory, sales and purchase-order processing, and point of sale. Individual modules cost $1,195 each for the Windows version and $795 each for DOS.

Platinum for Windows, Platinum Software Corp., 1-800-426-0469: This package runs on a company's computer network and offers 14 modules, including advanced functions such as foreign-currency management, intercompany-transaction processing, and financial reporting.

This Windows 95-compatible software can be configured to meet a company's specific needs and provides connectivity to two database programs, Microsoft Access from Microsoft Corp. and Btreive from Btreive Technologies Inc. Individual modules start at $1,595.

Solomon IV, Solomon Software, 1-800-476-5666: Now available for Windows, Solomon IV is designed for network environments and incorporates database technology for fast access to records and for powerful financial-reporting capabilities.

There are 12 Solomon IV modules, including those for specialized tasks such as management of cash, currency, and project costs. Software that runs on a network server is priced from $1,295 per module for three users.



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811 Blue Chip Enterprise Initiative. An award program that has honored more than 1,000 businesses since 1990. Find out how your business can qualify for this program. Call for information.

810 Mancuso's Small Business Basics. A new book with step-by-step information on how to start, buy, or franchise your way to a successful business. Learn how to choose a venture, select partners, get financing, and write a business plan.

858 Royal Copystar. Call for information about our desktop and high-volume systems. We offer a nationwide network of service personnel for your copier needs.

848 Mail Boxes, Etc. The world's largest franchisor of neighborhood postal, business and communications service centers targeting small and home-based business owners and general consumers. Call for more information on franchising opportunities.

which he says is easier to use and provides better access to records.

Until recently, accounting software was one of the last software markets dominated by DOS programs, which were text-based and difficult to use. However, off-the-shelf programs such as Peachtree Complete have been among the first accounting software products to be developed for Windows.

Besides making the software easier to use, Windows compatibility allows accounting programs to incorporate features such as customized forms and checks—often including a company's logo—that can be printed on a color laser or inkjet printer.

Resisting Change

Higher-end accounting systems have been slow to convert to Windows. Part of the delay is attributable to the fact that companies using these systems usually have to upgrade to more-powerful computers upon incorporating a Windows version. That's because accounting systems and Windows both demand a lot out of a computer's processor and memory.

Moreover, customers who have invested thousands of dollars in their DOS systems have to spend thousands more not only for the upgrade but also for training employees to work in the Windows environment.

But experts caution that the off-the-shelf packages have their drawbacks, especially as small-business owners begin to delegate accounting tasks to employees.

"With most of the popular packages, the easier they are to use, the easier they are to corrupt," allowing employees to alter the books or cover up theft or other fraud, warns Rose. The higher-end programs offer better security and audit-trail features, he says.

Although the off-the-shelf packages are becoming more functional, Rose cautions that small companies often outgrow them, necessitating a move to a more advanced system. So it's important, he says, that small-business owners choose software that can import and export records from other packages. Otherwise, both the owners and the records could be effectively locked in to one system.

Regardless of which system a company chooses, Rose says, accounting software is not a replacement for a good accountant. Rather, software enhances what an accountant does by making it easier to handle financial records and transactions and by giving the accountant—and the small-business owner—a better look at a company's financial picture. NB

Preventing Time From Marching Backward

It's Monday, Jan. 3, 2000, the first workday of the 21st century. You flip the on/off switch on your personal computer, and something strange happens.

Instead of operating normally, the computer acts as if it has gone back in time, informing you that the year is 1900 or 1980. Or worse, it doesn't work at all.

Three years from now, that could be a common scenario in many small businesses. The problem is that most computer hardware and software products were engineered to record dates based on the final two digits of a given year.

For example, to most computers and programs, 1997 is "97." But come the year 2000, these computer systems will go back to "00." This could mean that they will date things as 1900 or, in some instances, as 1980, which corresponds roughly with the introduction of the first PCs.

This "year 2000 problem," as it is known in the technology industry, could cost businesses worldwide more than $300 billion to fix, according to a study conducted in 1996 by the Gartner Group, a market-research company in Stamford, Conn.

The lion's share of the problem will be among so-called legacy programs—complex, expensive, often custom-crafted software such as accounting and database systems that run on the mainframe computers and minicomputers of large organizations.

But the PCs and off-the-shelf software used by small businesses could also be affected, particularly systems with software that processes records that include dates—typically accounting, sales-automation, and spreadsheet programs.

"Basically, companies need to establish some procedure for finding out what might go wrong with their systems and how bad it would be for their business," says Nicholas Zvegintzov, president of the Software Maintenance Network, a Staten Island, N.Y., software consulting company.

Zvegintzov advises small companies to begin testing their current programs now to see how they deal with 21st-century dates. "If you're using off-the-shelf software," he says, "plug in some dates and see if it fails." If it does, "then you go to the suppliers of the software and ask them what they are doing to solve the problem."

Zvegintzov says software written within the past year or so is much less likely than older software to have problems with the year 2000. So an upgrade to the most recent version of your software may be all you need to become "year 2000 compliant."

The computers themselves are another story. Zvegintzov says that older computers probably won't start up in 2000 and beyond. This reflects a programming problem in the software embedded in the computer itself.

An easy test of a computer's vulnerability is to set the time and date on the PC ahead to 11:58 p.m., Dec. 31, 1999, then shut off the machine. Two minutes later, switch the computer back on. If you see the familiar interface, the computer will not pose a problem.

But if the computer prompts you for a date upon restart, you have a problem. Check with the manufacturer to see if an update of the computer's internal software is available. If not, resign yourself to replacing the machine during the next three years.

Computer networks and telephone PBX systems may also be vulnerable to the year-2000 problem. The Gartner Group recommends that businesses start testing these other systems soon in addition to their PC hardware and software.

If you wait until 2000, your systems may start testing you.

Family Business

Taking time into account; the costliness of avoiding confrontation; mental illness's grip.

OBSERVATIONS

Adding A New Dimension To A Classic

By Sharon Nelton

PHOTO: T. MICHAEL KEZA

The freshest and most thoughtful family-business book I've seen in a long time is *Generation to Generation: Life Cycles of the Family Business* (Harvard Business School Press, $29.95).

Maybe it's because it was written by four of the finest minds in the family-business field: Kelin E. Gersick, a professor of organizational psychology at the California School of Professional Psychology, in Alhambra; John A. Davis, president of the Owner Managed Business Institute, in Santa Barbara, Calif.; Marion McCollom Hampton, an associate professor of organizational behavior at Boston University; and Ivan Lansberg, an organizational psychologist in New Haven, Conn.

The four, who have been consultants to hundreds of family firms in the U.S. and overseas, take a familiar model developed in the early 1980s—three overlapping circles representing ownership, business, and family—and add to it the dimension of time. (The earlier model was formulated by Davis and Renato Tagiuri, a professor emeritus in the Graduate School of Business Administration at Harvard University.)

While the three circles accurately reflect the "subsystems" operating in a family business, the authors argue that for a more complete understanding of how family businesses work, we "must take time and change into account."

Generation to Generation expands the three-circle model by looking at what happens in each circle over time. For example, ownership may start with a single entrepreneur, pass to siblings in the second generation, and move to a group of cousins in the third. Each stage of ownership has its own impact on the business, and each has unique characteristics and challenges.

The challenges of the single controlling owner include getting capital and choosing an ownership structure for the next generation. The challenges of the sibling partnership, however, include developing a process for shared control among owners, defining the role of nonemployed owners, and retaining capital.

For years, those of us in the family-business field have looked at succession as the major issue in a family firm. What *Generation to Generation* does is create a greater understanding of all the critical transitions in a family business. Succession comes to be seen more clearly as part of a total picture and not the main event.

The authors say that one of their intents is "to help family-business owners think more clearly about themselves." This book meets that goal and significantly advances the study of family businesses.

A Selection Of The Best

The Best of FBR: A Celebration is a 268-page compilation of 26 of the best articles that have appeared in the *Family Business Review*. It marks the 10th anniversary of the journal's publisher, the Family Firm Institute of Brookline, Mass., a professional organization of family-business advisers, educators, researchers, and consultants.

The collection was edited by Richard Beckhard, a New York City consultant long considered one of the leaders in the family-business field. It can be ordered for $75 through the Family Firm Institute's World Wide Web site at *http://www.ffi.org* or by calling (617) 738-1591. ■

PLANNING

The Price Of 'Peace At Any Price'

By Bernard Kliska and Craig E. Aronoff

PHOTO: [illegible] POWELL

Bernard Kliska, left, is a licensed family therapist in Chicago and retired CEO of his family's fourth-generation business. Craig E. Aronoff holds the Dinos Chair of Private Enterprise at Kennesaw State University, in Kennesaw, Ga. Both are family-business consultants. Copyright © by the Family Business Consulting Group, Inc., in Marietta, Ga.

Jill, vice president of her family's business, comes to her father to discuss what she considers a growing problem with Bill, her brother-in-law, also a vice president. "Bill's always leaving early," she says. "Other employees are beginning to talk about it."

Her father, the company president, promises to check it out, but nothing is done. A few weeks later, Jill is back. "Bill really isn't carrying his part of the load," she says. "Resentment is growing."

Dad's response: "Bill's under a lot of pressure." Again nothing happens.

In frustration, Jill tries once again: "Dad, I've talked with Bill, but he says that I'm meddling with his job. The employees are really upset. One has quit. You're the only one he'll listen to."

This time Dad responds—but his message is to Jill. "Look, the last thing we need is a problem in the family. We can afford to cut Bill some slack. Let's give him and me and all of us some peace around here. Things will work themselves out."

Given the stress, strains, and complexities of family business, the desire for peace is understandable. But sometimes, and for some people, the desire to avoid conflict and hard decisions becomes the highest priority. Family members and leaders

sometimes say, in effect, that they want "peace at any price." But their desire for peace, however well intended, can end up making things much worse.

Dealing with a person who seeks peace at any price can be very difficult. It may mean confronting someone who feels motivated by love and harmony. Unlike confronting an ornery family member—which requires only courage—dealing with the peace-at-any-price person also demands the ability to overcome feelings of guilt.

Two very different types of "peace-at-any-price" people are found in family businesses. One type genuinely wishes to avoid any kind of unpleasantness or conflict. The other uses conflict avoidance as a way to achieve his or her own goals—using what psychologists call passive-aggressive behavior. Both types delay making needed decisions until circumstances become almost unbearable.

ILLUSTRATION: TROY THOMAS

When you are faced with the first type, one approach is to deal with the individual directly. Explain clearly and strongly that by not taking a stand, he worsens the situation for everyone, including himself. Also try to put matters into a broader perspective, reviewing previous difficult decisions and their outcomes. Help the individual to imagine the risks and conflicts that arise from both action and inaction and to think about how conflicts that are likely to arise can be resolved.

Other techniques involve changing the location of responsibility for the decision. You can sometimes offer to take responsibility for the decision yourself: "If you won't decide, then I will." Sometimes a task force of the board can be created to make a decision.

The passive-aggressive peace-at-any-price person presents even greater difficulty. When this type says he doesn't want any trouble, he really means he doesn't want to get caught making trouble.

Such people use methods so indirect that they are hard to spot, much less pin down. Their actions allow them deniability so that they can say, "Oh, no, you misunderstand what I said [or did]," or "That wasn't my intention," or "I was only trying to help."

Here are some techniques for working with insincere peace-at-any-price people:

Flatter Them

While the flattery may not be genuine, remember that you are dealing with insincerity. Sometimes you have to fight fire with fire. Praise efforts to keep peace. Show understanding of how difficult it must be to be in their position. Tell them that if you were in the same spot, you'd be angry.

The subtle beauty of this approach is that passive-aggressive people really *are* angry, but deny it. By meeting them where they pretend to be, you often force them to move.

"What-if" Them

After acknowledging their desire to maintain peace and even praising their position, ask, "If you were not such a nice person, what would you do?" While your peace-at-any-price individual may demur, if you persist with this tactic you will likely bring his or her anger out in the open, where it can be dealt with directly.

Clarify The Situation

You need clarification, particularly if you are the target of the passive-aggressive person's anger. If you feel that you are being undermined by someone but you can't prove it, you may want to be very direct.

Don't accuse, but talk about your feelings. Don't say, "You're trying to force me out of the company, aren't you?" Instead, say, "I keep getting the feeling that you would rather not have me around."

Follow immediately with specific examples of what the person has said or done that has led to your feelings. Have several examples ready, because the passive-aggressive response is to deny and to make you feel you are wrong.

Peace is the greatest gift of all, but few families or businesses can remain successful if they attempt to avoid conflict by maintaining peace at any price.

The price of peace at any price can be deterioration of the business and of family relationships. Almost always, the price is far too high. We hope your family business can take the actions necessary to build a deeper, stronger, more meaningful peace. ■

MARK YOUR CALENDAR

Jan. 16, Durham, N.H.

"The External Advantage: Attracting and Retaining Key Nonfamily Employees" features a panel of business owners discussing when and how to bring in professional managers. Call Peter Parady of the Penley Forum for Family-Owned Business, at the University of New Hampshire; (603) 862-1107.

Feb. 2-5, Safety Harbor, Fla.

"Bettering What We Do Best: The Strategic Use of Self for Change" is a seminar offered by the Continuing Program for Women in Family-Owned Business. It features two nationally known consultants, Matilde Salganicoff and Fredda Herz Brown. Call the Family Business Learning Institute; (201) 461-7356.

Feb. 9-12, New York City

"Call to Renewal: Family Philanthropy in Action," a conference on family foundations, includes pre-conference seminars on Feb. 9 on starting a foundation and on issues for women of wealth. Contact the conference information desk at the Council on Foundations; (202) 466-6512.

Feb. 11, St. Louis

"Creating Harmony in the Family Business: Thriving on Productive Conflict" features the communication and management consulting team of Susan and Peter Glaser. To be repeated Feb. 12 in Bloomington, Ill. Call the Family Business Forum of Southern Illinois University at Edwardsville; 1-800-692-4333.

March 6, Northampton, Mass.

"Attracting and Retaining Key Nonfamily Employees" is a panel discussion featuring business owners and human-resources directors. Call Ira Bryck at the University of Massachusetts Family Business Center; (413) 545-1537.

March 23-26, Carling Lake, Quebec

"Governance Structures and Processes for Families in Business" is the topic of a three-day program offered by the Institute for Family Enterprise, in Montreal. For information, call (514) 982-5402.

How To Get Listed

This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to Family Business, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

Case Study: Mental Illness At The Top

At first Ron Russell, 62, appears to be very much in control. His 6-foot-4-inch frame, dark hair, dark eyes, and commanding voice make him an imposing force not only in the Russell family but also in the Russell Development Co. His wife, Linda, 60, and his son, William, 36, know just how imposing he can be.

Ron is bright and articulate, and when he is on medication, only his family knows he suffers from bipolar disorder, or manic-depressive illness.

"He has kept the condition hidden from others, but his mood swings are getting more and more frequent," says Linda. Sometimes he refuses to take his medication. Then he becomes increasingly agitated and is verbally abusive to Linda and William. They always try to walk a delicate line, trying not to anger him.

The Russell family has a history of mental illness; it afflicted Ron's grandfather, who started the business. William is so fearful of passing on the trait that he has decided to never have children.

Ron is not only the president of the company but also manager of three family trusts from earlier generations. The senior nonfamily managers are competent, and William and Linda support them wholeheartedly. Recently, however, Ron has tried to micromanage them. And now, although some managers still respect Ron, several are thinking of leaving the company. William, an architect in the business, prefers not to work for his father directly.

Ron's outbursts are getting harder and harder for William and Linda to live with. "How," they ask, "can we keep his behavior from hurting the business, the employees, and us?"

ILLUSTRATION: TROY THOMAS

Response 1

Curb The Power To Wreak Havoc

Mental illness, alcoholism, and drug addiction present serious challenges to any family. Such challenges are exacerbated when there is also a business involved and when the majority of the family wealth is in the hands of the affected individual.

William and Linda should first speak to a psychiatrist to be sure they fully understand Ron's condition, the risks involved, and his medication. Second, they should speak to a trusted family adviser—such as an attorney, a CPA, or a family-business consultant—who may be able to help them convince Ron that it is time for him to relinquish control of the family trusts, either to William or to a professional trust manager.

Scott W. Kunkel, director of the Family Business Institute at the University of San Diego.

William and Linda also need to get Ron to agree to include some outsiders on the board—if there are none now. It would be best if a majority of the board members were outsiders; this would decrease Ron's ability to unilaterally ruin the company with a rash decision.

Rather than accountants, attorneys, or other paid professionals whom Ron could feel justified in pushing around, the outside board members should be CEOs of other businesses whom Ron listens to and respects. He might be less likely to launch into a tirade in their presence. He might also accept other CEOs' assessments of his irrational behavior more readily than he would listen to his wife or his son.

Acting on these recommendations wouldn't cure the disease, but it could decrease the likelihood that the disease will destroy the family's livelihood.

Response 2

Be Open About The Problem

It is difficult for any successful business executive to recognize that he or she may not always be in control, but often it is more difficult for someone who has been the driving force behind a family business. The dual responsibility to both family and business can be overwhelming, and family members as well as key executives may be alarmed by the perceived limitations of their leader. The true risk to the company, however, is not its leader's limitations but the fear of openly acknowledging them.

Louisa W. Frederiksen, family-business coordinator at Tulane University, in New Orleans.

The Russells should seek both individual and group counseling. The anxiety over admitting that there is a problem with Ron's mental health needs to be overcome, and Ron needs to recognize that the way he is managing his bipolar disorder is harmful to the longevity of his business and family relationships.

If Ron is hesitant about seeking counseling, a trusted family friend, physician, or business associate may be able to get through to him when family members fail.

William or Linda or both should meet with all the key managers and ask for their patience and loyalty while the family works through this process. The company can't afford to lose these managers now, and communication will go a long way toward winning back commitment.

Ron should also have a succession plan in place and a timetable for a gradual transfer of power. If his mental health were to become a lot worse, a succession plan could provide for business continuity and survival.

This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Georgann Crosby, a consulting partner in the Family-Business Roundtable, a consulting organization in Phoenix. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the views of the institute.

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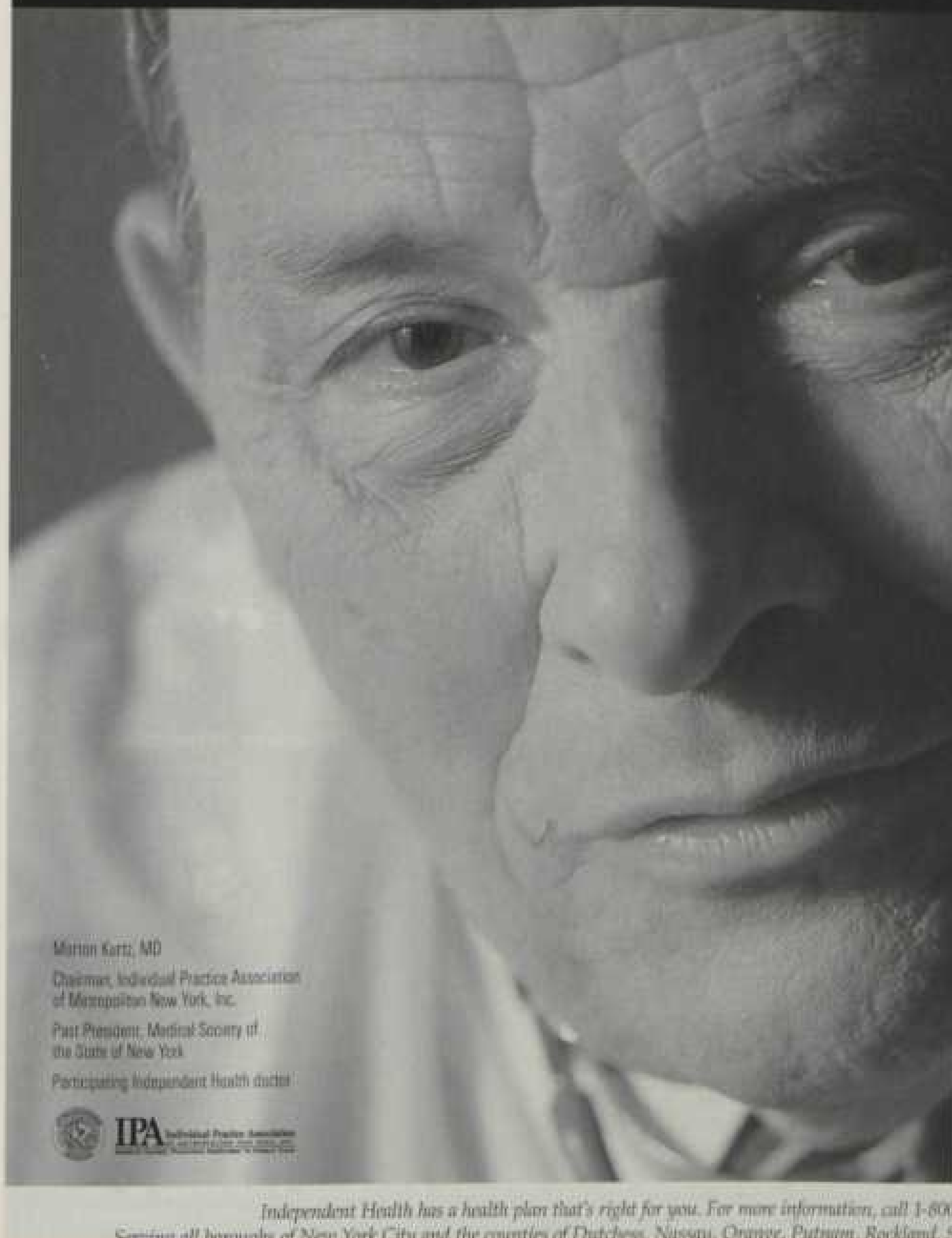

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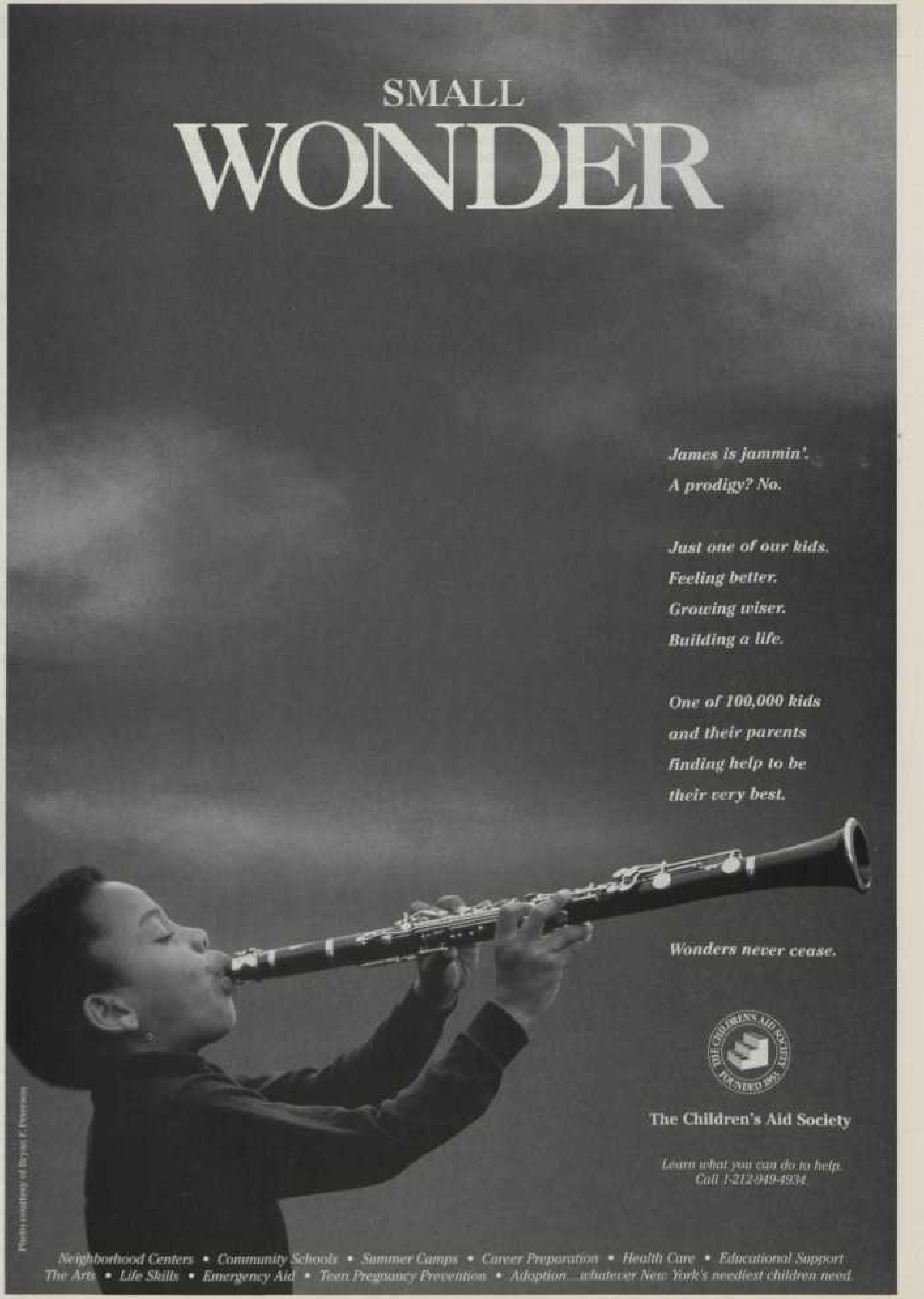

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Franchising SPECIAL GUIDE

The Decision To Franchise

Here's how to tell whether it is the best way to expand your company.

By Roberta Maynard

Party Animals. The Mad Science Group. The Soccer Post. If you haven't heard of these companies, their founders want to make sure that you will. That's why they've franchised their once-independent businesses.

"Franchising makes sense if you want to expand," says Joseph Falana, president of The Soccer Post, a franchise company in Haddonfield, N.J., that sells soccer apparel and supplies. A former soccer player and coach, Falana operated a single store for 11 years before deciding to franchise. Now, five years later, he has 19 franchised Soccer Post stores in eight states.

Franchising is attractive because it allows a company to expand its brand by using the resources of others—that is, the funds and hard work of those who buy franchises. In return, the franchisees gain the right to use the company's trade name and to distribute its products.

In what is called business-format franchising, which constitutes about 70 percent of all franchising, franchisees are trained in the entire system of operating the business, and they receive ongoing support from the franchisor. (Franchises offering little or no such support constitute the remaining 30 percent.)

Companies that franchise also benefit from having store operators who are highly motivated to succeed because, unlike hired store managers, they have a financial stake in the success of the business. In fact, recent studies show that putting a franchisee into a company-owned store raises sales by an average of 10 percent.

A desire to tap this sense of commitment is what prompted Cheryl Carter to begin licensing and later franchising Party Animals. The Atlanta-based business provides costumed characters for business functions, birthday parties, and other events. Its characters have been seen at trade shows, amusement parks, and even the White House, where the company has provided the Easter Bunny.

In 1989, after two successful years in business, Carter sent an employee to another city to establish a second Party Animals location. She soon discovered that hired employees weren't willing to put in the hours necessary to develop the business in a new market. Living and breathing the business takes more incentive than a paycheck, she found.

So she began selling licenses to use her company's name and concept. A major advantage of licensing over other types of expansion arrangements, including franchising, is not having to provide ongoing support to licensees.

But as her company grew, she decided she wanted greater control over the business she had developed, and in 1992 she began franchising. Since then she has sold 22 franchises.

PHOTO: ©MICHAEL A. SCHWARZ

Seeking committed people *to develop her business in new markets, Cheryl Carter decided to franchise Party Animals, which provides costumed characters for corporate parties and other events.*

The Necessary Attributes

Though franchising has been a successful expansion vehicle for businesses ranging from brake repair to bagels, not every type of business is suitable.

Francorp, an international franchise-consulting firm based in the Chicago area, fields about 6,000 calls each year from companies wanting advice about franchising their operations. About 500 of those inquiries make it to the desk of Mark Siebert, Francorp's president. Of those, roughly 60 of the callers become clients and eventually sell franchises in the United States.

Franchising experts say that companies with good potential for franchising share

certain attributes. Among other things, the companies:

■ Are successful businesses, even if they have just one store.

■ Offer something that is unique or can be made unique.

■ Have credible, marketable concepts with wide geographic appeal.

■ Have operational systems that are simple enough to be replicated.

■ Will generate enough rate of return to allow franchisees to pay their ongoing royalties and still have sufficient profit of their own.

■ Are succeeding for reasons that aren't tied to the owner's personality or the business's proximity to a particular site such as a tourist attraction.

Other positive signs include out-of-town customers asking where they can get your product back home and people approaching you about selling them a franchise.

A company's size does not necessarily determine whether it can be franchised successfully. Falana had only one retail store when he began franchising The Soccer Post five years ago and now has nearly a score of units. The chief advantage of larger size is the credibility that it can foster when a business is being marketed to prospective franchisees.

The Transition To Franchisor

Along with evaluating the type of business they run, CEOs considering franchising need to assess their own personalities and goals and the role they want to play as a franchisor. "Some people don't recognize when they become franchisors that they're starting a whole new business," says Francorp's Siebert. "Maybe they used to flip burgers. Now they have to concentrate on making sure their franchisees are successful at doing that."

The transition from managing the core operation to helping franchisees manage the core operation can be jolting, and for many entrepreneurs it's difficult or even impossible.

One new franchisor who previously ran a home-based business says he found that franchising requires an entirely different set of skills than those needed for running an independent operation. For one thing, franchisees—especially new ones—look to their franchisor for knowledge, information, support, and encouragement.

"You have to be prepared mentally for this new attachment," says Party Animals' Carter, who spends many hours each week talking to her franchisees. "You become a psychologist, mentor, adviser, and expert."

Franchisees expect help and support not only because they are likely to be business neophytes but also because they have paid dearly—often with their life's savings—for the expertise they were promised when buying the franchise.

"No matter how much you do for franchisees, they'll always demand more," says Ariel Shlien, founder and president of The Mad Science Group, a Montreal-based children's science-education company that has 40 franchises. "And that's how they *should* feel. They're paying a lot upfront and paying a lot of royalties."

Assuming responsibility for the lives and livelihoods of franchisees weighs heavily on

Taking The First Steps

Before deciding to become a franchisor, you'll need to consider a number of issues and actions. The International Franchise Association, a trade group in Washington, D.C., that represents franchisors and franchisees, lists these as among the most important in *How To Be A Franchisor*, a booklet by Robert E. Kushell and Carl E. Zwisler III:

Operating Plan
Develop an operating plan that encompasses all aspects of a franchise operation: sales, servicing, training, and subdivisions of these areas, such as site selection. Who in your organization will be responsible for each area?

Financial Plan
Develop a conservative financial plan that includes cash flow, profit and loss, and extra sources of funding, if needed. Will you finance your growth with public or private offerings, venture capital, loans, or partnerships, or by using your company's capital?

Dispute Procedures
Determine how you will resolve disputes with franchisees.

Growth Strategy
Decide whether to grow regionally, nationally, or internationally.

Franchise Cost
Set the initial franchise fee, ongoing royalty fees, and any contributions you expect franchisees to make to your national advertising program.

Franchise Sales
Decide how you will sell franchises—through your own sales department, business brokers, subfranchisors, direct mail, word of mouth, advertising, or a combination?

Franchise Territories
Determine how you will establish territories. Are you going to give franchisees exclusive or open territories? Will franchisees be subject to volume quotas or performance standards?

Franchisee Qualifications
Establish a franchisee profile, taking into account experience, education, financial capabilities, skills required, and personal qualifications.

Operations Manual
Set down all of the methods and procedures you want franchisees and their employees to use in the operation of their franchises.

Self-Evaluation
Determine whether you are prepared to give up your independence and allow a group of individuals to manage the day-to-day business while you train and support them.

new franchisors. As Carter puts it, "You have to be willing to understand that you're not working for yourself anymore."

Even as franchisees gain experience, franchisors continue to be challenged by them, says W. Berry Fowler, who has started three successful franchise companies, including Sylvan Learning Centers, a student-achievement program, and Little Gym International, Inc., a children's fitness franchise. His latest is The Krypton Institute, a company in Spokane, Wash., that provides consulting services to small firms.

In the beginning, says Fowler, franchisees are very excited and view franchisors as being wise. Later, he says, the franchisees become almost like teenagers—they think they're smarter than the franchisor. Finally, with success comes maturation, and the partnership becomes solid again.

Some entrepreneur-franchisors never can come to grips with the partnership aspect of franchising. Says Shlien: "Even though you must see past the [immediate] demands of franchisees and make decisions based on the good of the company, it's necessary to be like an ambassador. If you're like an autocrat, forget it.... If you've got a mentality that people coming into the system will do all you tell them, you'll have a miserable franchise system."

In fact, one of the primary reasons new franchisors fail, says Francorp's Siebert, is that they are "too autocratic and treat franchisees like store managers instead of as partners." (Other reasons for failure include marketplace changes and insufficient capital, Siebert says.)

PHOTO: ©SAL DIMARCO—BLACK STAR

Franchising to the right person *is critical to success, says Joseph Falana, president of The Soccer Post.*

The Selection Process

It's important to consider the long-term nature of franchising and the need to choose partners carefully. The typical term of a franchise agreement is 15 to 20 years. Consequently, the approach to choosing a franchisee should go far beyond just making a sale.

Fowler, in looking back on his 18 years as a franchisor, says: "In my enthusiasm to sell a franchise, I have made mistakes about the skills and background of people I chose. I've learned the tough way that picking the right franchisees is the most important thing you can do."

At The Krypton Institute, Fowler's staff carefully qualifies prospects by phone and then checks references. Serious prospects then meet face to face with Krypton management. Before a franchise is awarded, the company's entire executive committee must agree on the prospect.

Though this approach is logical, it may not be easy to carry out consistently. A new franchisor struggling to build the system may find it difficult to turn down a prospect's franchise fee. "In the beginning, we probably would have sold anybody a franchise and been happy," says The Soccer Post's Falana. "But it's critical to success to sell franchises to the right person—and to someone in the right market. ... You have to be very careful because this is someone you will have to work with for a long time."

Government Regulations

Before a franchisor can begin selling franchises, the new franchise operation must be structured so that it complies with federal and state regulations.

The Federal Trade Commission requires

every franchisor to give each prospective franchise buyer an extensive disclosure document called the Uniform Franchise Offering Circular, or UFOC. It must contain information about the history of the franchise company, its financial statements, the franchisee's fees and investment costs, and other relevant details.

A franchisor cannot legally take any money for the sale of a franchise until the prospective franchisee has had 10 working days to review the disclosure document.

Twelve states require franchisors to submit their UFOCs to state agencies for review; seven others require that a different form detailing the franchise offering be filed with the state before franchises can be sold there.

An experienced franchise lawyer will be needed to handle these aspects of the offering. Franchise lawyers can be found through local bar associations or the Yellow Pages, or on a supplier list available from the International Franchise Association, a trade group in Washington, D.C., by calling (202) 628-8000.

Many new franchisors also seek the advice of franchise consultants to structure the operational, training, and marketing elements of the franchise.

> **The most successful franchisors "shoot high—they have a vision of what the business can become."**
> —Mark Siebert, Francorp

Creating this structure takes four to eight months, and it can be expensive. Falana, for instance, spent more than $80,000 to do it, using capital generated by his soccer store. Shlien spent $50,000 to lay the groundwork to sell Mad Science franchises in the United States. And Carter financed Party Animals' transition to franchising by taking a second mortgage on her home.

The basic legal work alone can cost $20,000 or more, depending on the number of states in which the franchises will be sold and on other factors. Marketing and advertising costs are determined by how aggressively a company wants to sell.

Falana recalls that the expense involved didn't make his decision to fran-

chise any easier. "You realize that for that amount of money, you could open two stores of your own," he says. "And you ask yourself, 'Is it worth getting the documents to franchise when you may not even sell any franchises?' "

That's a risk. But at least a franchisor will find out soon enough whether the concept creates any sparks for would-be entrepreneurs—provided the advertising has been targeted correctly. In the first year, a typical franchisor can expect to sign on nine franchisees, in the second, 11, and in the third, 13, experts say. An established franchise company can expect to sell about 20 annually.

Owners franchise their businesses for various reasons: to finance expansion; to create a system that can later be sold; to give something back to employees by enabling them to buy a piece of the company; to protect the quality of a product or service; or to tap particular markets.

Although the creation of personal wealth is also a reason that many business owners franchise, experts warn that franchising shouldn't be undertaken as a way to get rich quick. "If you plan to do this for five years thinking you'll make a lot of money, those five years can turn you gray," says Carter.

In particular, it's a mistake to try to survive on the sale of franchises rather than on the royalties that come from successful franchisees. At least some of the initial fees should be put into support and training to ensure that success, experts say.

Deciding whether to franchise a business has to start with an assessment of personal goals, says Francorp's Siebert. "You have to have a good sense of your destination. How big and how fast do you want to grow?" he says. "The most successful [franchisors] are the ones who shoot high—they have a vision of what the business can become."

If you opt to expand through franchising, you can't do it halfway. "You have to be committed and be ready for large and quick growth if it comes your way," says The Soccer Post's Falana. "You can't plan on just six stores—you may get 60." NB


PHOTO: CRAIG SWEAT

Franchisees *are a perpetual challenge, says franchisor W. Berry Fowler.*

FRANCHISING

The Changing Landscape

Executives view a wide range of issues they say will shape the world of franchising in the year to come.

By Roberta Maynard

One dollar out of every three spent by Americans for goods and services is spent in a franchised business. And more than 8 million people in the United States are employed in franchising, which contributes over $800 billion annually to the nation's economy.

What issues will the franchise community face in 1997?

Here's what industry authorities say the top challenges and opportunities will be this year for franchise companies, their suppliers, and their franchisees:

Don DeBolt, President
International Franchise Association
Washington, D.C.

More Expansion

Continued growth of franchising will depend on a continuing flow of people attracted to the prospect of buying franchises, says DeBolt. "The challenge will continue to be [to educate] people to the positives and to the risks of franchising.

"Franchising growth in 1996 was equal to or better than the year before, when there was an increase of 10 to 12 percent in both units and dollars in an economy that was growing at 2 to 3 percent." The reason, he says, is that people who sense their jobs are becoming less secure are "looking into franchising as an alternative."

New federal regulation of franchising is unlikely in 1997, DeBolt believes, because pressing national issues, such as balancing the federal budget, will take priority.

"On the state level, too," he says, "we're very optimistic [about minimizing new regulation]. Over 20 states have considered franchising proposals. All but one [Iowa] have rejected getting into the relationship issues inherent in franchising."

As for franchising generally, one trend to watch is the changing nature of franchisor-franchisee relationships, DeBolt suggests. "The line between [franchisors and franchisees] is becoming fuzzy and blurred. Partnership arrangements such as joint ventures between franchisees and franchisors to form a third concept will become more widespread."

Another trend affecting franchising—and business generally, DeBolt notes—is the increased use of technology by franchise companies and the growth of technology-based franchises.

Susan P. Kezios, President
American Franchisee Association
Chicago

Legislative Efforts

"Franchisees will be continuing the process of trying to establish minimum standards for franchising," says Kezios. "There will be legislative efforts on the federal and state levels in 1997. Even if they don't appear as strictly franchise measures, they can show up as part of other bills."

Two of franchising's thorniest issues—from a franchisee perspective—are encroachment of new locations into a franchisee's designated territory and the lack of fiduciary responsibilities for franchisors when they handle franchisee money such as pooled advertising funds.

"To address these, we want general guidelines, established by law. You've got to have a police entity for enforcement," says Kezios. The American Franchisee Association is expected to have available in early 1997 a model "responsible franchise practices" act for states to follow when drafting legislation. Among other things, it will allow for a private right of legal action by franchisees against their franchisor, she says. (Most franchise agreements either prohibit suits or require franchisees to use arbitration or mediation before going to court to resolve disputes with franchisors.)

Kezios also points to a shift away from the traditional standoff between franchisees and franchisors. "We are hearing from franchisors—mostly smaller, newer franchise companies—who have no problem with our agenda," she says.

Robert L. Purvin Jr., CEO
American Association of Franchisees and Dealers
San Diego

Standards For Franchisors

Purvin says a marketplace solution would be more effective in protecting franchisees than more legislation and regulation: "The big trend is the advent of franchisor accreditation. Last June, we announced the fair-franchising standards. Now, we'll begin to offer the fair-franchising seal to franchisors.

"My prediction is that we're going to affect the marketplace with this program because companies are trying to get a competitive edge in selling their franchises."

As of November, four franchise companies had earned the seal. Purvin's goal is to accredit 10 to 20 companies this year. "Our

vision is to create something like the UL [Underwriters Laboratories] symbol, so that eventually all franchisors will have to meet these criteria in order to sell a franchise in the U.S."

Another development to watch in 1997, says Purvin, is that "trademark-specific groups are coming together to create more cooperatives to improve the buying clout of individual franchisees."

He also sees a change in the way that franchising is viewed by those outside it. "In the last six months, we've seen a signal turnaround in the thinking of the judicial system with regard to franchising. Four or five lawsuits, primarily having to do with encroachment and fair dealing, for the first time show that the courts understand the franchisee perspective."

PHOTO: GEFF MAGIC

Janet L. Sparks
Publisher
Continental Franchise Review
Englewood, Colo.

Blurring Of Lines

"If 1996 has shown us anything, it is that the lines defining the roles of franchisees and franchisors are blurring more and more," says Sparks. "In the past, franchisors set the rules. But as franchisees increasingly form associations to represent them, franchisors recognize the political clout that this brings to the entire structure of franchising.

"Now, franchisees are having more of a say in such areas as territorial protection and how advertising funds are handled. They are forcing issues, particularly collective bargaining, through their independent associations."

Franchisors have become creative in their response to increased competition, says Sparks, citing increased use of the Internet and co-branding as strategies for market penetration. "Franchisees are learning how to keep up with the aggressiveness and creativity of franchisors. Franchisees are expanding and moving from mom and pop [operations] to big business, especially in restaurant franchises."

Last, Sparks says: "This year we will see more company shake-ups. Franchise companies are participating in mergers and acquisitions, often as a way to acquire multiple concepts that can be offered together."

Mark Siebert, President
Francorp
Olympia Fields, Ill.

Growth Of International Franchising

"International is a huge growth area for franchising now and will continue to be one of the biggest areas for U.S. and foreign companies," says Siebert, who heads an international franchise-consulting firm. Growth opportunities for mature U.S. franchises in particular are overseas, he says.

Many foreign markets are in the early phases of franchising, with large companies such as KFC and McDonald's opening locations. "Others, such as Japan, have moved well past that stage toward the point of developing and exporting their own franchise systems, which has the potential to affect U.S. companies in their home markets," Siebert says.

In the United States, he says, "we're seeing a real boom in franchising. In terms of the number of companies that are becoming franchise companies, we saw an increase of 20 percent from 1995 to 1996. I think that's going to continue."

That growth is partly the result of a migration of people from big business to small business, including many former corporate executives who bought franchises after being displaced through downsizing, he says.

"One of the things that drives companies to become franchisors is the demand by people to become their franchisees," he says. "What happened last year, more than in previous years, is that people who started their own businesses in the early 1990s—the height of the [economic] downturn—are now turning to franchising as a way to expand their businesses."

November Poll Results

Readers' Views

Full Speed Ahead!

By overwhelming majorities, respondents to a recent *Nation's Business* poll believe the public is ready for action by Congress and the president on the most important issues of the day.

In the Where I Stand poll in the November issue, readers were asked whether they believed Americans were ready for important national matters to be resolved through legislation or whether they believed more public education was necessary first.

The issues included balancing the federal budget, overhauling Social Security and Medicare, restructuring the tax system and cutting taxes for individuals and businesses, and reducing federal regulatory requirements on business.

Action on the 1997 agenda will be up to President Clinton and the Republican-led 105th Congress. Voters in November opted for two more years of divided government; they handed Clinton a second term but kept Republicans in control of both houses of Congress, thus giving the GOP the power to set the Capitol Hill agenda.

Clinton and the 104th Congress failed to agree on several major issues, including how to balance the federal budget, avoid bankruptcy for Medicare, overhaul federal education and job-training programs, and ease the regulatory burden on businesses.

However, it's expected that Clinton and the GOP Congress will be less confrontational than they were for most of 1995-96 because voters made it clear they want more cooperation to solve problems.

Here are the complete results:

Questions And Answers

	The public is ready	More education is needed
1 Cut federal spending more to eliminate the deficit by 2002.	77%	23%
2 Overhaul Social Security and Medicare to ensure that they have funds to continue operating in the future.	69	31
3 Reduce taxes for individuals and businesses.	83	17
4 Restructure the federal income-tax system.	81	19
5 Make federal regulations easier to comply with and harder to issue.	88	12
6 Limit financial and legal liabilities for businesses in lawsuits.	73	27
7 Loosen labor-law restrictions on business.	70	30
8 Reorganize and consolidate federal job-training and education programs.	77	23

Where I Stand

On Major Economic Issues

President Clinton and the GOP-controlled Congress face a number of important matters related to the federal budget and the U.S. economy. These questions seek your views on those issues. Results of this poll will be forwarded to administration officials and congressional leaders and will be published in the March issue of *Nation's Business*. Send the attached, postage-paid Reader Response Card. Or circle your answers and fax this page to (202) 463-5636.

1 **Should Congress and the president continue their efforts to shrink the size of the federal government?**

1. Yes
2. No
3. Undecided

2 **Should Congress and the president continue to shift responsibilities now handled by federal programs to the states, as they did with welfare in 1996?**

1. Yes
2. No
3. Undecided

3 **Should Congress and the president agree on some kind of business and/or individual income-tax cut to boost economic growth?**

1. Yes
2. No
3. Undecided

4 **Should the new Congress try again to adopt a balanced-budget amendment to the Constitution?**

1. Yes
2. No
3. Undecided

5 **Would you support a bipartisan commission to work on solving Medicare's fiscal problems?**

1. Yes
2. No
3. Undecided

Send Your Response Today!

TOP-RATED BUSINESS PRODUCTS!

Nation's Business readers have selected their TOP 10 business products in the only way that counts... with their wallets! Through their purchases they've told us that these courses, documents, and strategies have helped them save time, generate income, and foster better customer and employee relations. In general, they've said that many of the products on the following pages have helped their businesses grow and prosper.

Listed below are the TOP 10 to serve as a guide for your own purchases. And we've introduced 12 new products to our regular offerings, three of which are featured on this page. Remember that every product shown in the grouping has undergone rigorous screening before it appears in Nation's Business. Remember, too, that every product we offer carries our 30-DAY SATISFACTION GUARANTEED pledge: If for any reason you decide to return a product within 30 days of receipt, you'll receive a complete refund or cancellation of your credit card charge. Order your examination copies today!

TOP 10 HONOR ROLL

Sales LetterWorks
(customizable, ready-to-use sales letters)

BizPlan*Builder*
(business plan development)

The Power of Customer Service
(enhanced customer satisfaction)

Up Your Cash Flow
(cash needs fulfillment)

38 Proven Ways to Close That Sale
(sales solutions)

50 Ways to Keep Your Customers
(customer retention)

Legal LetterWorks
(customizable forms, contracts, agreements)

Business LetterWorks
(customizable letters for every occasion)

Personnel ReadyWorks
(human resource management forms)

Publicity*Builder*
(free publicity generation)

Full descriptions inside. Order now!

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Computer disk (DOS 5-1/4, 3-1/2, WINDOWS 3-1/2, MAC) and 400-page reference guide.
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Your price:
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Stop problems before they occur by creating a company-specific manual that details your policies, procedures, and benefits. With over 140 ready-to-customize documents to choose from, you'll not only satisfy legal requirements when you give each employee a manual, you'll have better informed (and happier) employees and managers... and that means a smooth-running business. This is a *must* for anyone with five or more employees.

NEW!

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FINANCING SOURCES DATABANK

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NEW!

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EMPLOYEE APPRAISER

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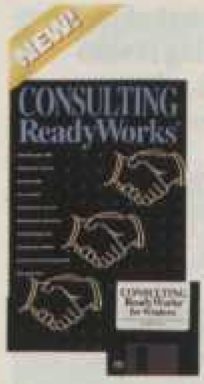
Avoid common performance appraisal mistakes that can get you into legal difficulty... and ruffle employee feathers. Developed by labor law experts, this computer-based program checks your documents for inappropriate language and not only offers advice on how to correct it, but gives you access to hundreds of professionally written phrases and paragraphs that can be personalized for your needs. You and your supervisors will cut review writing time in half!



Expert advice and forms for starting and running a consulting business.

CONSULTING READYWORKS

Start generating income from the moment you start your business. 150 forms that help you calculate fees, send winning proposals, write your own brochures and sales letters, create contracts, and more. This program also explains what to do about slow-paying clients, how to dramatically increase business from existing clients, and how to get free publicity.

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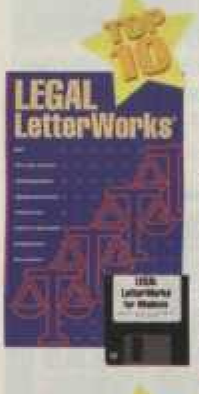
$119.95 plus $6 s/h



165 legal forms and agreements

LEGAL LETTERWORKS

Count the times you've needed a legal form: partnership or corporation papers, brokerage agreement, real-estate lease, contract for sale of goods, a will. Now you can save money on legal fees and avoid time-consuming deal-killing delays. Just call up the form you want, fill in the blanks as directed, and print a completed form.

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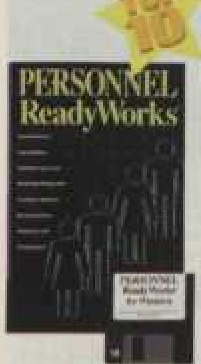

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Effectively handle many of the most sensitive areas of management: hiring and discipline, health and safety, government regulations, and more. Avoid costly problems and possible lawsuits with customizable forms that cover company policy, benefits, record-keeping, performance appraisals, terminations, confidentiality, and illness.

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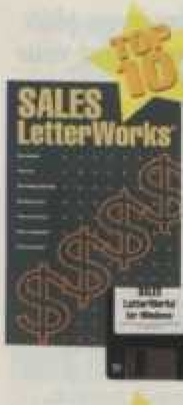

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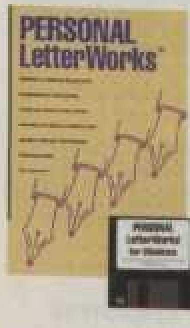
*Formerly LetterWorks



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Be prepared for every imaginable situation, ranging from touchy, feelings-oriented issues to hard-nosed "this-is-the-way-it's-going-to-be" challenges. Never struggle again with a sympathy note to a colleague or friend, or a hard-to-resolve dispute with an uncaring banker or vendor, or how to say "Thank you," or "I appreciate you."

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See things from the customer's point of view and increase sales.

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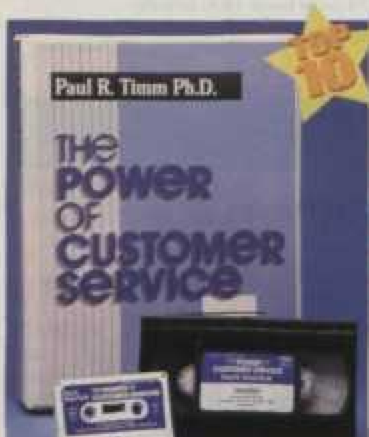

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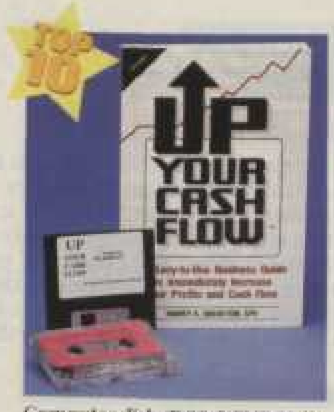

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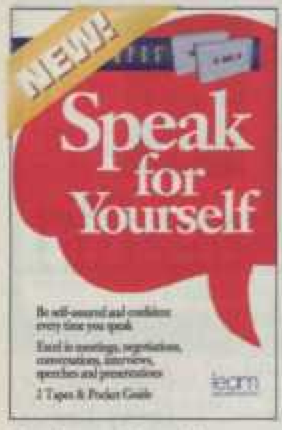

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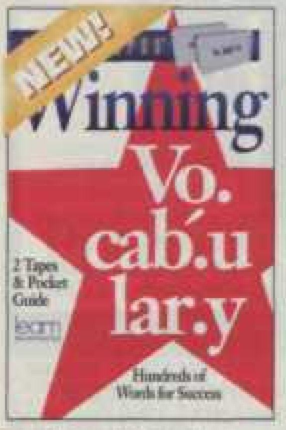

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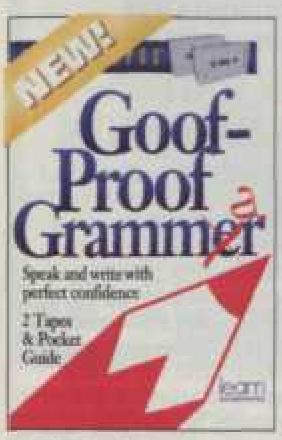

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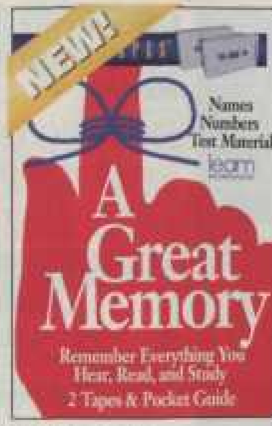

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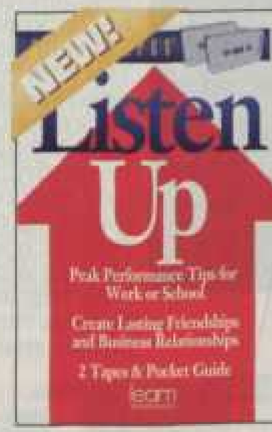

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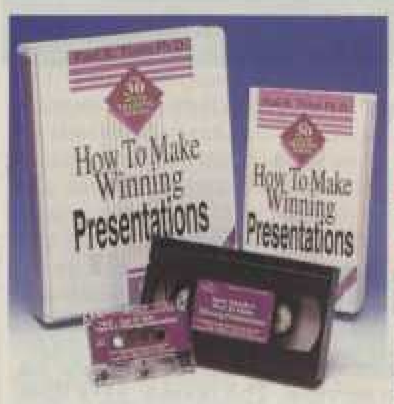

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Small Business Financial Adviser

Keeping your business all in the family; taking checks over the phone; new retirement-plan rules; rebalancing your portfolio.

Make Your Family Business 'Divorce-Proof'

By Abby Livingston

When George Lavelle wanted to retire about five years ago as president of the Lavelle Co., a Fargo, N.D.-based wholesaler and distributor of building materials, he set up a trust to transfer the assets of the business to his 11 children.

But the gifting of stock was contingent upon two conditions: one, that the children would provide him with an income stream for the rest of his life, and two, that all his sons-in-law and daughters-in-law sign a spousal, or postnuptial, agreement. The thrust of the agreement was that the spouses would waive their rights to any value of the business in the event of a divorce.

Although all the spouses ultimately signed the agreement—against the advice of a leading divorce attorney in town—the request that they do so caused much friction and some alienation.

"My father knew that the agreement would cause problems in his relationships with his children's spouses," says Mike Lavelle, 45, who is the company's operations manager and whose wife signed the agreement. "But even though his decision meant being ostracized, his first commitment was to protect the company, knowing that multiple divorces could cripple the family business."

With a generation of family-business owners getting ready to retire and almost half of all marriages failing, the issue of keeping company ownership in family hands is more pressing than ever. Yet few business-owning families actually take steps to prevent divorce proceedings from jeopardizing their wealth, thereby leaving their life's work exposed to lengthy, expensive, and often bitter legal battles over financial settlements.

The good news, however, is that there are a number of estate-planning tools that can be used to "divorce-proof" your business. But all require some advance preparation. So it's a good idea to safeguard your business now rather than wait until you're ready to retire or you're confronted with a crisis. Here are tools you can use:

Prenuptial Agreements

Any child in line to receive company stock should be encouraged to sign a prenuptial agreement. This legal document spells out the rights of each spouse to the property of the other if the marriage is terminated by divorce or death. As such, a "prenup" is a good way to make sure that any business assets brought to a marriage remain separate property.

One of the most common stipulations in such agreements is that the future in-law will never make a claim against his or her spouse's interest in the company.

For greater protection, it's also good to spell out that any appreciation in the value of the stock is to remain the original owner's separate property.

Also, make sure that the stock-owning spouse receives a reasonable salary for his or her services. The reason, says Ross Nager, executive director of the Arthur Andersen Center for Family Business, in Houston, is that stock that's gifted in lieu of salary could be subject to a former spouse's claim for alimony or support.

Although prenuptial agreements are popular topics of conversation, few of them are actually implemented, because spouses-to-be often see them as signs of distrust or hostility. "It's hard for the newly engaged family member not to take the issue personally when it's raised for the first time regarding them," Nager says. "So if there's no pressing need to deal with the issue, people tend not to deal with it."

The possible sting of a prenuptial agreement might be reduced if signing one is made a matter of company policy. Another way to minimize hurt feelings is to limit the scope of the agreement to assets that the spouse did not help produce.

Michael Fay, a partner with the Boston law firm of Hale & Dorr, suggests limiting a prenup to assets brought to the marriage or subsequently inherited and to family-business interests (regardless of how they are acquired).

Since the standards for enforcing a prenuptial agreement vary by state, consult an attorney before signing one. In most states, however, a former spouse will have a hard time challenging one if both parties had separate counsel.

Trusts

You can spare your children the emotional trauma of having to negotiate a prenuptial agreement by gifting company stock to a trust. A well-drafted trust will contain a "spendthrift" provision stipulating that the beneficiary's assets are separate from the marital estate and immune from the claims of any creditors. "And creditor No. 1 is a spouse in the context of a divorce," Fay points out.

By gifting stock directly to a trust, you also protect any increase in stock value from becoming subject to subsequent divorce claims.

To keep stock out of the marital pot, don't

let the beneficiary control the trust or have the power to make distributions.

Furthermore, you can't create a trust to protect your own assets from the claims of a spouse or other creditors. "And be careful that the termination of the trust is [enough years away] that the assets don't come into the marital estate," adds Mike Cohn, president of The Cohn Financial Group, Inc., a family-business consulting practice in Phoenix.

Although a trust can be structured to protect stock from divorce litigation, the value of the trust shares could be considered when working out the property settlement. "A divorce judge may take into account that the stock-owning spouse will ultimately benefit from assets walled off in the trust" and may find other assets to satisfy the former spouse's claims, says Fay.

Finally, you may encounter some internal resistance. Some grown children may chafe under the restrictions of having their stock held in a trust. Others may not want outside trustees involved in the financial life of the family.

Buy/Sell Agreements

A good buy/sell agreement restricts the transfer of company stock to an outsider by giving the family (or active shareholders) purchasing rights upon certain triggering events, such as a divorce.

One of the rights often stipulated is the right of first refusal, which gives the company or shareholders the opportunity to purchase shares before anyone else.

Suppose that a divorce judge gives an ex-spouse some company stock. "The company or other shareholders would have the right to buy that stock from the family member and give the departing spouse cash rather than an interest in the business," says Fay.

Another advantage of a buy/sell agreement—also referred to as a shareholder's agreement—is that it covers a broader range of circumstances regarding the transfer of stock than a prenup does.

"The possibility of divorce would be only one triggering event, along with the desire to gift, sell, or leave the business," notes Craig E. Aronoff, director of the Family Enterprise Center at Kennesaw State University, in Kennesaw, Ga. "You can deal with all these issues in one document and make it much less personal and much less related to marriage per se."

When drafting the agreement, however, be sure to cover divorce specifically as a triggering event. It's also a good idea to decide how the stock will be priced and how the purchase will be funded should you need to buy back the stock.

Some agreements direct shareholders to obtain an outside appraisal of the business; others include a formula price based on net worth or earnings. You can also spell out that any stock payments will be spread over several years.

Despite its benefits, remember that a buy/sell agreement triggered by divorce could prove to be a costly proposition—thus throwing off some well-intentioned succession planning.

"We had a client who bought stock back from his son two or three times because the son kept getting divorced," says consultant Cohn. "Needless to say, it got very expensive."

Abby Livingston is a free-lance business writer in Scarsdale, N.Y.

PENSION PLANS

New Retirement-Plan Rules For Family Firms

Most businesses still favor the use of qualified (tax-favored) profit-sharing or pension plans for retirement benefits even though the rules for such plans are becoming more complex and restrictive.

And until now, small businesses that are family-owned have had to abide by the tax code's "family-aggregation" rules, which significantly limited the amount of plan contributions or benefits that could be made by or for family members by lumping together their annual compensations and counting them as one.

Now, after years of lobbying by representatives of small business, a little-noticed provision of the Small Business Jobs Protection Act of 1996 has eliminated the family-aggregation rules for retirement-plan years beginning after Dec. 31, 1996. This will allow owners and their families to save more for retirement.

Under the old rules, any employee related to an owner of 5 percent or more of the company or related to certain highly compensated employees was not treated as a separate employee in determining the limits of his or her plan contributions or benefits. The compensation received by all family members was combined and treated as if it all was paid to the 5 percent owner or to the highly compensated relative.

This limited contributions, since no more than $150,000 of a person's annual compensation could be taken into account in determining his or her maximum plan contributions or benefits. (The maximum rises to $160,000 beginning Jan. 1.)

For example, Jim and Jane Owner and their children (two sons and a daughter) are all full-time employees of their family business, Gizmo Inc. Jane owns all of the stock of the corporation. Jim and Jane each earn $170,000 a year, the daughter earns $85,000, and the two sons each earn $75,000. The total payroll for 45 other employees is $1.7 million.

Gizmo has a profit-sharing plan that provides for an annual contribution of 15 percent of compensation. Under the family-aggregation rules, Gizmo could contribute a total of only $22,500 to the plan for Jim, Jane, and their three children.

Under the revised rules and the higher compensation ceiling, beginning on Jan. 1, Gizmo can contribute $83,250 on behalf of the five family members: $24,000 each for Jim and Jane, $12,750 for their daughter, and $11,250 each for their sons—a total increase of $60,750.

This change could also benefit Gizmo in a different way—by allowing it to lower its overall profit-sharing percentage while still increasing the contributions for the family members. The company could reduce its contribution percentage to 10 percent from 15 percent, for instance. Under this approach, the amount contributed for the family would still be increased, by $33,000. But the overall profit-sharing contribution required for the other 45 employees would be reduced by $85,000.

Contact your accountant or tax adviser to begin planning to take advantage of the elimination of the family-aggregation rules.

—Albert B. Ellentuck

The author is counsel to the Washington, D.C., law firm of King & Nordlinger.

ELECTRONIC COMMERCE

Taking Orders By Phone Check

Merchants have another way besides taking a customer's credit-card number to accept payments over the phone or via the Internet's World Wide Web. They can process an order using the customer's checking-account or savings-account number.

The method, long used by insurance companies and utilities for monthly payments, is gaining acceptance and availability for one-time purchases as well. And even start-up businesses can use it.

Here's how it works:

A business takes a telephone order and the customer's checking- or savings-account number to secure payment. The account information is used to create a "demand draft," a check like any other except that it is missing the consumer's signature. These drafts pass through the banking system in the usual way and are returned to the consumer with his or her bank statement.

Merchants who use this payment method say that consumer resistance generally fades as soon as customers realize that they reveal their checking-account information every time they write a check.

In December 1995, to prevent abuse of payment by bank-account number, the Federal Trade Commission issued a rule requiring telemarketers who cold-call consumers to obtain written or tape-recorded authorization to use checking- or savings-account information if they process orders in that way. Failure to comply can result in a fine of $10,000 for each violation.

If fraud does occur, law-enforcement officials may be able to get a consumer's money back. However, whereas consumers have a $50 liability limit for fraudulent credit-card transactions, there is no legal limit to their liability for forged phone checks.

To be able to accept payments this way, merchants can establish an account with a company that clears phone checks. One such company, Redi-Check, in Salt Lake City, charges a sign-up fee of $250.

The merchant sends the customer's checking-account number to Redi-Check by fax or electronic mail. Redi-Check creates a demand draft payable to the merchant, less a 2 percent fee, and sends the draft through the banking system.

The money is deposited into the merchant's account, and the draft is returned to the consumer with the rest of his or her canceled checks.

Checks By Phone, in Boca Raton, Fla., also handles phone-check processing; it charges a $249.95 sign-up fee and a 2 percent transaction fee.

Merchants can also create the demand drafts themselves using software from a San Diego company, TurboCheck. The software, which retails for $99, includes a two-step electronic-mail ordering process that is designed for security on the World Wide Web, according to the software's publisher, Michael Tripp.

For more information, contact Redi-Check at 1-800-607-2001, visit the Checks By Phone site on the Web at *http://www.checksbyphone.com*, or go to TurboCheck's Web site at *http://www.turbocheck.com*.

—Frances Cerra Whittelsey

The author is a free-lance writer in Huntington Bay, N.Y.

SECURITY

Playing It Safe With Your Records

What would happen to your business if fire destroyed vital papers and computer data?

Would you be able to replace those things quickly and inexpensively?

If there's any doubt, you should consider investing in an office safe, a home safe, a bank safe-deposit box, or some combination of the three.

"I advise small-business owners to ask themselves some key questions," says Dianne Digianantonio, product manager for Diebold, Inc., a safe manufacturer based in North Canton, Ohio.

Among those questions are:

- What records are vital for the business? Examples include accounts receivable, computer data, film, audiotapes, videotapes, contracts, charters, and paid-off loan notes.
- How frequently will you need access to your vital documents? If the answer is rarely, then a relatively inexpensive bank safe-deposit box ($25 to $100 a year) is the answer. But if you require frequent access to important papers or computer data, you should consider investing in a safe or a fireproof file cabinet.
- What risks are you concerned about—fire, theft, or both? If it's one or the other, you can spend less for protection. If you want to cover both risks, you'll have to pay more.

A small office or home safe that is designed to protect valuables and paper documents but not computer data can cost as little as $400. A larger, fireproof, and burglar-resistant security file cabinet that can hold computer records along with papers will cost $1,500 or more.

When you're shopping for a safe or a fireproof cabinet for your office, pay attention to the UL (Underwriters Laboratories) fire and theft ratings. If you want a fireproof safe or cabinet for paper documents, it should have a UL fire rating of at least 350, advises Diebold's Digianantonio. That rating means that if the exterior temperature is 1,700 degrees, the interior temperature will stay at 350 degrees or below for one hour.

For computer discs and other electronic records, you'll need a special box that is placed inside the safe or cabinet. The box, which looks like a six-pack cooler and costs about $250, lowers the UL fire rating to 125 and keeps the interior humidity at less than 80 percent.

There are two anti-theft ratings. UL-2 means the safe will keep a burglar out for up to 20 minutes. A more expensive safe with a UL-1 rating is designed to require at least two hours to crack.

—Peter Weaver

The author is a free-lance writer in Bethesda, Md.

INVESTING

When Your Portfolio Needs A Balancing Act

By Randy Myers

It's the start of a new year. Do you know where your money is?

You probably established asset-allocation targets for your investment portfolio within the past few years. That is, you decided what percentage of your money should be invested in stocks, what percentage in bonds, and so forth, with the aim of achieving the highest possible investment returns within your tolerance for risk.

Good job. You may have found, though, that maintaining that asset mix can be a challenge.

Perhaps an emergency forced you to withdraw money from one part of your portfolio, or you bought a hot new stock without thinking about how it would affect your asset-allocation strategy. Or maybe your stock portfolio just did exceptionally well for a time and grew, as a percentage of your total holdings, far more than your other assets.

That's exactly what happened to many investors' portfolios over the past two years. From Jan. 1, 1995, to Sept. 30, 1996, the Standard & Poor's 500-stock index posted a total return (capital gains plus reinvested dividends) of 56 percent. By contrast, the average mutual fund invested in U.S. government bonds posted a total return of just 14.9 percent, according to Morningstar Inc., a Chicago-based research firm.

If you started that 21-month period with 50 percent of your assets in the S&P 500 and 50 percent in a middling government-bond fund, your asset mix would have changed dramatically by the end of that period—to 57.6 percent stocks and 42.4 percent bonds—even if you made no purchases or sales within your account. That's a mix that could pose more risk than you're comfortable with.

Whatever causes your investment portfolio to become unbalanced, the solution is to revisit your asset-allocation targets and, through the sale and purchase of securities, realign your portfolio to match those targets. Investment professionals call this process "rebalancing."

"Rebalancing on at least an annual basis is a good idea," says Frederick Raffety, a certified financial planner with Robert Lawrence Consulting, in Rockford, Ill.

Most investors will find it fairly simple to map out a rebalancing plan. Start by dividing a sheet of paper into six columns and listing in the first column each class of assets in your portfolio (see the accompanying chart for an example). Stocks, bonds, real estate, and cash are the most common categories, although your list may be more detailed. You might, for example, distinguish between large-company stocks and small-company stocks, or domestic and foreign stocks.

In the second column, list your target allocation for each asset class as a percentage of your total portfolio. In the third column, list the actual dollar values of your investments in each category.

In the fourth column, express those values as a percentage of your total investment portfolio. For example, if your stocks are worth $10,000 and your total portfolio is worth $30,000, divide the former number by the latter to get 33 percent.

In the fifth column, calculate how much money should be allocated to each asset class to match your targets. Simply multiply the total value of your portfolio by the percentages shown in the second column.

Finally, in Column 6, subtract each figure in Column 5 from the corresponding figure in Column 3. If the result is a positive number, it represents the amount by which that asset class has become too large—and the amount you want to sell. If the result is a negative number, it represents the amount of money you need to add to that asset class.

An attractive byproduct of rebalancing is that it offers a helpful discipline for timing buy and sell decisions, says certified financial planner Peter Palion of Master Plan Advisory Inc., in New York City.

Before you start buying and selling securities willy-nilly, though, mix in a dose of common sense. If the transactions needed to balance the portfolio are very small, commissions could make the trades uneconomical, so don't bother.

Raffety notes that professional investors often allow investments to range outside of their allocation targets by a few percentage points in either direction before they take action.

Avoid unfavorable tax consequences whenever possible. For example, don't trigger capital gains by selling stock that has appreciated in a taxable account if you can achieve the same goal by selling stocks or mutual funds held in a retirement account.

Finally, don't forget to review your asset-allocation strategy itself before rebalancing to make sure that it reflects any changes in your investment goals.

Follow these tips, and your rebalancing efforts will ensure that your investment portfolio is always working toward meeting those goals. NB

Randy Myers is a financial writer in Dover, Pa.

Rebalancing Your Portfolio

How an investor with a $140,000 portfolio would rebalance it to fit asset-allocation targets in Column 2.

Col 1 Asset Class	Col. 2 Target Allocation	Col. 3 Actual Holdings	Col. 4 Actual Allocation (Col. 3 ÷ $140,000)	Col. 5 Target Holdings ($140,000 x Col. 2)	Col. 6 Amount To Add (Reduce) (Col. 5 – Col. 3)
Large-Company Stocks	40%	$55,000	39%	$56,000	$1,000
Small-Company Stocks	20	35,000	25	28,000	(7,000)
Foreign Stocks	10	11,000	8	14,000	3,000
Bonds	25	35,000	25	35,000	0
Cash	5	4,000	3	7,000	3,000
TOTALS	100%	$140,000	100%	$140,000	N/A

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PATENTS

Ideas For Sale

I have designed a new glove for smokers, and I am very much interested in obtaining patent rights and marketing those rights in the U.S. Please advise me on what I should do and whom I should contact.
N.S., Marsta, Sweden
(D.E., of Pensacola, Fla., and D.M.W., of Little Falls, N.Y., also wrote with patent-related questions.)

Patent applications must be submitted to the U.S. Patent and Trademark Office, Washington, D.C. 20231. To reach the patent office by phone, call 1-800-PTO-9199 (1-800-786-9199) or (703) 308-4357.

To get a patent, an inventor must file one of two kinds of applications. A provisional application gives the inventor one year of protection to develop the invention, explore markets, or acquire funding before starting the formal or nonprovisional application process.

An application of the latter kind must describe the invention in detail and lay out at least one claim for its newness.

You also must pay a filing fee ($385 for an individual inventor or a business with fewer than 500 employees) when you file a nonprovisional application.

The more significant costs, though, lie elsewhere. The PTO strongly recommends that applicants enlist the services of a patent attorney; 17,000 of them are registered to practice before the PTO. A roster of those attorneys is available through the PTO's World Wide Web site, *http://www.uspto.gov.*

The American Intellectual Property Law Association (AIPLA), headquartered in Arlington, Va., near the Patent and Trademark Office, has a membership of 9,000 patent attorneys.

It offers a booklet called *How to Protect and Benefit from Your Ideas*; the price is $10 from the AIPLA, 2001 Jefferson Davis Highway, Suite 203, Arlington, Va. 22202. On request, the AIPLA will also provide prospective patent applicants with a list of attorney members in the applicant's area.

The PTO won't recommend any patent-promotion organizations, suggesting instead that you get advice from your patent attorney. The PTO will also publish (for a $25 fee) a notice of a patent's availability in its weekly *Official Gazette.* ■

GETTING STARTED

A Sound Enterprise

I am interested in starting a retail compact-disc, tape, and record company, selling mostly country-and-western music. Where would I look to purchase CDs and tapes?
D.V., Bakersfield, Calif.
(A similar question was received from L.J.M., Franklin, Ky.)

The National Association of Independent Record Distributors and Manufacturers (NAIRD) offers the *Independent Distribution Guide*, which lists 124 distributors "that potential retailers could contact about getting product," according to Donna Bullion, office manager at the NAIRD.

"The guide was originally set up to help [record companies] find distributors," she says, "but it would also work for retailers trying to find distributors." The guide shows what kind of music each distributor carries and the sales territory it covers. The price is $10 from the NAIRD, P.O. Box 988, Whitesburg, Ky. 41858-0988.

The National Association of Recording Merchandisers (NARM), made up of large and small retailers and wholesalers (with the six major record companies and many smaller labels as associate members), has no material that it will send to nonmembers. But a year's membership for a new store that has not yet opened for business is $100; the new member also receives a membership directory and other guides to the industry. Write to: NARM, 9 Eves Drive, Suite 120, Marlton, N.J. 08053.

Springing Into Action

I am interested in selling bottled water from two springs that I own in Tennessee. I have had the water tested. What is my next step?
C.F.L., Athens, Ala.

The International Bottled Water Association will send you a basic information kit free of charge. You can contact the association at 113 N. Henry St., Alexandria, Va. 22314-2973; (703) 683-5213. A much fuller information kit for industry newcomers is available for $275. ■

HOW TO ASK

Have a business-related question? Mail or fax your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000; (202) 463-3102. Or transmit your question to our CompuServe address: 76436,1735. Be sure to include your address and telephone number.

Because of the high volume of letters, we can answer only those that are chosen for publication.

Questions may be condensed, and writers will be identified only by initials and city.

INCORPORATING

Taking Stock

We are a start-up company interested in establishing company stock, with future plans to go public. We are also interested in establishing an employee stock ownership plan. Where do we start?
C.J.M., Raleigh, N.C.

A basic guide to the ins and outs of incorporating, listing the requirements for each state, is *Inc. Yourself* by Judith H. McQuown (HarperBusiness, $25 in hardcover). First published in 1977 and now in its eighth edition, it should be easy to find through a bookstore or at your local library.

Incorporating as a Subchapter S corporation—which is not possible in every state—can give you the liability protection enjoyed by a regular or Subchapter C corporation while conferring possible tax benefits. It's a course of action frequently chosen by small companies. If you want to go public, though, you'll ultimately have to adopt C-corporation status.

Going public has always been an expensive and difficult process, but since 1992 it has been easier for small companies, thanks to a Securities and Exchange Commission rule, Regulation SB.

Under the rule, a registration form called SB-2 is available for use by small businesses with revenues of less than $25 million annually and outstanding securities with a market value of less than the same amount.

The SB-2 form requires fewer and simpler disclosures than Form S-1, the basic registration form for public offerings. A small business can therefore hope to raise money through a public offering while incurring expenses of only a few thousand dollars. But—and this is the constant theme where incorporation and public offerings are concerned—you'll still need a lawyer's help.

Moreover, says Mendy Kwestel, director of entrepreneurial services in the New York City office of accounting firm Grant Thornton LLC, "I don't know of many companies that have raised meaningful money just by enlisting an attorney. If you're talking about raising just $2 million or $3 million, you shouldn't even be going through the process."

But if you decide to go public anyway, he says, you're almost certainly going to need the services of an underwriter—an investment bank that will guarantee a minimum price for your securities (for a fee, of course). And not many underwriters would be interested in an initial public offering of SB-2 size.

Going public simply doesn't make sense for most small companies, Kwestel suggests, because the owners wind up giving away a lot of the company for a relatively small amount—especially when the costs of going public are taken into account.

If you want to set up an employee stock ownership plan (ESOP), you'll have to be a C corporation; ESOPs are not available to S corporations. To get more information about ESOPs, call the ESOP Association, a Washington, D.C.-based organization of companies that offer such plans, at (202) 293-2971; or the National Center for Employee Ownership, an Oakland, Calif.-based ESOP organization, at (510) 272-9461. NB

Editorial

A Victory For Growth, Jobs—And Integrity

Organized labor was jubilant when its candidate won a special U.S. Senate election last January.

"We put together an unparalleled political effort," said the AFL-CIO's militant new president, John J. Sweeney. Elected on a pledge to restore the labor federation's fading political, legislative, and organizational clout, Sweeney saw the outcome as the beginning of the promised revival. He was soon at work on a far more ambitious goal—regaining the House of Representatives for the Democrats, organized labor's traditional allies.

This was to be achieved by amassing a $35 million war chest that would be spent in a campaign targeting Republican House members considered particularly vulnerable.

Early advertisements in that campaign showed that facts were not going to get in the way. Among other things, the ads accused Republicans of wrecking Medicare and voting themselves a pay raise. The balanced-budget plan supported by the labor-targeted candidates—but vetoed by President Clinton—called for a 7 percent annual increase in Medicare spending through the year 2002.

In 1989, Congress indexed its own pay to the Consumer Price Index, and there have been no votes since then to raise pay.

Nevertheless, each of those allegations was likely to resonate with many voters not normally tuned to big-labor rhetoric.

The significance of Sweeney's grand design was not immediately apparent to many business people. Labor had acquired the image of an aging, toothless lion growing weaker by the year. But some business leaders realized that the forces Sweeney had put into play told a different story.

"Sweeney was trading in distortions to defeat members of Congress who stand for economic growth and job creation," says Bruce Josten, the U.S. Chamber of Commerce's senior vice president for membership policy and a major figure in the eventual business counterattack. "There was an urgent need for a credible and honest broker to set the record straight."

The honest broker emerged when the Chamber joined with four other trade associations as the nucleus of what became The Coalition: Americans Working For Real Change. The other founding organizations were the National Federation of Independent Business, the National Association of Manufacturers, the National Restaurant Association, and the National Association of Wholesaler-Distributors. The group eventually included 33 major trade organizations covering a broad spectrum of business, and it adopted a mission statement.

The $35 million labor drive, the U.S. Chamber official adds, not only was dishonest but also was "offensive to the political process by suggesting an attempt to buy a Congress."

A coalition approach by business was critical, Josten says, "because no one association could do it alone, given the scope and resources of what labor was doing."

And, he says, "it was unprecedented—everyone put aside their policy disagreements and their parochial interests and built a strong, coordinated team."

While The Coalition could not begin to match the AFL-CIO's spending, it used its resources far more effectively.

The labor forces originally set their sights on more than 70 GOP-held seats but gained only 17. (After the election, Sweeney's camp said that it had "heavily targeted" only 45 districts and its gains were actually a significant achievement.)

The business coalition focused its resources in 35 districts where it could have the most impact on stemming the campaign of misinformation promulgated by the AFL-CIO. Pro-business representatives won 27 of those races, or 77 percent. The importance of that number is apparent in the 19-member margin of GOP control in the House for 1997-98.

Business was fortunate in having in its association community a group of leaders who recognized the warning signs in the Sweeney campaign. They deserve the appreciation of everyone who believes not only in pro-growth policies but also in the integrity of the political system.

The Coalition

Mission Statement

"...to counter the campaign of misinformation promulgated by the militant leadership of the AFL-CIO and its allies, which will spend $35 million in compulsory dues in November's watershed elections to defeat those who stand for economic growth, job creation, and individual opportunity; to set the record straight on the positions taken by pro-business members of Congress and on the need to reduce the size, scope, and cost of the federal government."

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